MONTANA
Department of Commerce

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2007 Biennium Goals & Objectives

Department of Commerce:

The Department of Commerce strives to enhance the economic prosperity for all Montanans. The Department works with our customers (economic and community development organizations, businesses, communities, governmental entities, elected officials, and the public) to diversify and expand the state's economic base through business creation, expansion, and retention and improvement of our infrastructure, housing and facilities.

The Department is composed of eight major divisions as follows:

Business Resources Division

- Board of Research and Commercialization Technology
- Regional Development Bureau
- Census & Economic Information Bureau
- Trade & International Relations Bureau
- Small Business Development Center Bureau

Montana Promotion Division

- Film Office
- Marketing
- Tourism Development
- Electronic Marketing
- Industry Services and Operations

Community Development Division

- Coal Board
- Hard Rock Mining Impact Board
- Treasure State Endowment Program
- Community Development Block Grant Program

Montana Facility Finance Authority

Housing Division

- Board of Housing
- Housing Assistance Bureau

Board of Investments

Montana Heritage Commission

Director's Office/Management Services Division

- Director's Office
- Management Services Division
- Montana Council on Developmental Disabilities

The Department is mandated in 2-15-18, MCA.

Mission:

To enhance economic prosperity in Montana by working with our community partners to foster community led diversification of our economy; and to maintain and improve our infrastructure, housing and facilities.

Goals and Objectives:

- Working in partnership with our customers who are economic development organizations, businesses, and communities, governmental entities, elected officials, and the public to improve the state's economy through business creation, expansion, retention, and diversification of the state's economic base.
- Enhance the growth of the Montana economy through the promotion of tourism development, promoting and protecting historic sites, and the marketing of Montana as a travel and filmmaking destination.
- Promote access to new markets, both foreign and domestic, for Montana goods and services.
- Developing courses of action and statutory changes which facilitate the growth and health of responsible business enterprises in Montana.
- Provide grants and technical assistance to Montana communities and counties to develop and improve public infrastructure and housing opportunities for the state's citizens.
- Prudently manage the investments of state and local government funds.
- Fair and equal treatment of our fellow employees, customers, and those who might serve us as volunteers, and with whom we contract for services.

Business Resources Division:

The Business Resources Division is comprised of a variety of programs aimed at improving, enhancing, and diversifying Montana's economic and business climate. Working closely with the private sector, the Governor's Office, the Legislature, economic and community development partners, other department divisions, state agencies, and federal and private programs; the division strives to enhance the economic base of Montana through business creation, expansion, and retention efforts.

Business Resources Division responsibilities are mandated primarily in Title 30, Chapter 16; Title 17, Chapter 6; and Title 90, Chapter 1 and 10, MCA.

Mission:

The mission of the Business Resources Division is to deliver information, technical assistance, and financial resources to communities and businesses in Montana resulting in the development and prosperity of our state.

Goals and Objectives / Performance Indicators:

Research & Commercialization:

The Board of Research and Commercialization Technology was created by the 1999 Montana Legislature to provide a predictable and stable source of funding for research and commercialization projects and to expand and strengthen research efforts for the state's basic industries to increase their economic impact on the state economy; and to expand research efforts into areas beyond the scope of the basic industries to diversify and strengthen economic security through the creation of technology-based operations and long-term quality jobs.

The board has the statutory authority to make grants or loans to research and commercialization centers if the projects to be funded:

- Have potential to diversify or add value to a traditional basic industry of the state economy;

- Show promise for enhancing technology-based sectors or commercial development of discoveries;
- Employ or take advantage of existing research and commercialization strengths;
- Have a realistic and achievable project design;
- Employ an innovative technology;
- Are located in the state;
- Have a qualified research team;
- Have scientific merit based on peer review; and
- Include research opportunities for students.

Mission:

The mission of the Montana Board of Research and Commercialization Technology is to support the development of research and technology that has commercial potential within Montana by providing leadership and funding resources for those activities.

Goals and Objectives:

Award authorized funds to research and commercialization projects with significant potential to improve the state's economy by:

- Supporting production agriculture projects that improve production capability, value-added opportunity and alternative crop options;
- Supporting projects that have the involvement of private companies;
- Supporting projects that show a clear path to commercialization in Montana; and
- Providing oversight management of awarded grants.

PERFORMANCE	CY 2003 Cumulative	CY 2004 Cumulative	Plan CY 2005 Cumulative
Follow-on Funding	$ 59.7M	$ 65.9M	$ 75.9M
Matching Funds	$ 24.9M	$ 26.2M	$ 31.2M
Total Award Funding	$ 16.6M	$ 18.4M	$ 21.9M
Total Payroll Expenditures	$ 58.8M	$ 64.4M	$ 72.8M
Production Agriculture	$ 5.6M	$ 6.3M	$ 7.0M

Regional Development Bureau:

Montana Finance Information Center:

The Montana Finance Center provides summary information for the most significant financing resources available from state, federal, and local institutions. The Montana Finance Information Center website is organized as much as possible by source and point of application. Preference for organizational purposes is given to the actual level that provides funding to businesses and local governments. The web address for the Finance Information Center is http://www.mtfinanceonline.com/.

The Finance Information Center has responded directly to numerous email requests for information and has developed dozens of specific finance option summaries for business proposals, including business recruitment activities conducted by the Governor's Office. As additional credible sources of finance and technical assistance are discovered, they are included within the resources of the website.

Objectives:

- Continue to update and keep current the finance and technical assistance information on the website.
- Continue to research information that would be useful to include in the website.

PERFORMANCE	CY 2003	Plan CY 2004	Plan CY 2005
Visits	22,161	23,000	24,000
Pages Viewed	57,748	60,000	62,000
Total Hits	437,975	450,000	460,000
Average Visits per month	1,049	1,150	1,250

Regional Development Officers:

Montana is divided into five regions with a Regional Development Officer (RDO) assigned to each area as a representative of the Montana Department of Commerce. The RDOs live in their regions and are a resource to businesses, local development corporations and communities in the area. The program serves as an access point to all relevant Commerce Department resources, and all other relevant business and community development resources. A primary purpose of the program is to provide technical assistance to businesses for the purpose of obtaining financing for start-ups, expansions, business locations from out of state, and retention.

Objectives:

- Ensure that all areas of Montana have reasonably equal access to funding and technical assistance resources, especially the Commerce Development Fund (CDBG).
- Develop close and effective working relationships with businesses and the resources that benefit them in their efforts to grow and create new employment in Montana.
- Improve the capacity of local development efforts through technical assistance and fund raising. This includes close involvement with the Certified Communities program.
- Work closely with the Governor's Office of Economic Opportunity and other state agencies involved in economic development, such as the Department of Agriculture.

It is important to note that the major projects worked on by the Regional Development Officers always include significant levels of cooperation between businesses, local development organizations, local governments, banks, federal and state agencies and all available business resource programs, including the Montana Manufacturers Extension Centers. The RDO program works closely with MMEC and the Regional Development Bureau has provided grant funding for several years to MMEC in order to expand its efforts working with Montana Manufacturers. The RDO program will also be integrally involved working with the Montana Agricultural Innovation Centers currently being established in Montana.

The focus defined in the guidelines of most Regional Development Bureau technical assistance and finance programs is to assist value-adding businesses, such as manufacturers. The intent is not to take credit for the projects but to show the extent to which positive results are being achieved through the hard work of all entities involved. Regional Development Officers facilitate, coordinate, and expedite business projects by working with others in the regions they serve.

In 2003, the RDO program was involved with **25** completed business and community development finance projects that resulted in approximate **new financing of $94,310,230 dollars** in Montana. The projects project the **creation and retention of 1,025 jobs** based on the business plans utilized in the finance packages.

PERFORMANCE	CY 2003	Plan CY 2004	Plan CY 2005
Completed Business Projects	25	25	25
Job Creation and Retention	1,025	1,000	1,000
Business Financing	$94,310,230	$75,000,000	$85,000,000
Total Project Investment	$94,310,230	$75,000,000	$85,000,000

Community Development Block Grant (CDBG) Program:

The Montana Department of Commerce receives approximately $2.5 million each year from the federal Department of Housing and Urban Development. These funds are administered by the Business Resources Division and distributed to communities for loans to businesses to stimulate economic development activity that creates or retains jobs primarily for individuals from low and moderate-income families. The program assists businesses by providing flexible interest rates and loan terms to complement conventional bank financing and other federal and state finance programs. The program also provides funding for infrastructure in support of business and job training. Loan repayments are retained locally to re-lend to other businesses in the community, thus creating a local revolving loan fund.

The program reviews applications for funding on a continuous open cycle throughout the year. Projects are selected for funding by considering the overall feasibility, long-range economic impact, and the number of jobs that would be made available to low and moderate income persons in the community.

Objectives:

Based on years of public comment, enforcement of federal program objectives and various studies conducted through the years for the program and economic development generally, the program's objectives for assisting business development in Montana are to:

- Increase viable economic development projects that promote investment of private capital, expansion of local tax bases, and creation of permanent year-round jobs principally for low and moderate income Montanans;
- Increase economic activity, which adds value to a product through manufacturing, refining, processing, or packaging, especially those activities that involve Montana's natural resources;
- Increase economic activity, which creates new wealth in Montana by selling the majority of its products outside of Montana, by effectively substituting goods previously produced outside of Montana with goods produced in Montana, or by distributing Montana-made goods;
- Increase service companies such as consulting, engineering, or other companies that sell their services predominantly (greater than 50%) outside of Montana;
- Allow local communities to identify their own needs and develop their own initiatives;
- Assist businesses and communities in achieving economic prosperity by using program resources to leverage other private and public resources;
- Assist new and expanding businesses with employee training needs;
- Assist micro-enterprises through technical assistance funding;
- Assist small business participation in gaining access to federal funding for R&D through the State of Montana SBIR program;
- Place a priority on projects that create higher paying jobs.
- Fund more high-technology businesses and manufacturing operations, including value added agricultural products, based on current demand. Over the past five years, more than ½ of the projects funded were in the technology and manufacturing sectors.

- Help create over 200 jobs per year, of which, over 51% will be held or made available to low and moderate-income persons.
- Leverage $12 to $13 of other funds for each $1 of program funds.

PERFORMANCE	CY 2003	Plan CY 2004	Plan CY 2005
Job Creation and Retention	173	200	200
Planning Grants	10	6	6
CDBG Business Financing	$2,200,000	$2,200,000	$2,200,000
Total Project Investment	$88,239,688	$25,000,000	$25,000,000

Certified Regional Development Corporations:

This new program provides statutory funding for regional economic development organizations (Certified Regional Development Corporations) on a matching grant basis of $1 state dollar for every local $1.

Objectives:

- Encourage a regional approach to economic development that facilitates the efficient delivery of economic development programs by supporting regional capacity building.
- Work towards including the counties in Montana that are not currently part of a CRDC.
- Receive and evaluate CRDC annual reports for compliance with contracts.
- Implement the Treasure Communities Program.
- Survey CRDC's to receive input on the implementation of the Treasure Community program.
- Work with CRDC's to enhance and build their capacity to serve their constituent counties, communities, and citizens in the areas of technical assistance, finance, regional planning, and grant administration.
- Evaluate and make recommendations for improvement in the CRDC program.
- Continue to help administer the Economic Development Advisory Council meetings by proposing agenda items, performing research and analysis where needed and requested, and implementing suggestions made by the Council with the approval of DOC management.

PERFORMANCE	CY 2004	Plan CY 2005	Plan CY 2006
Local & Regional Planning	36 Planning Sessions	42 Planning Sessions	48 Planning Sessions
5-Year Strategic Plans	9	12	12
Business Technical Assistance	Base Year # of Sessions	Base Year + 2.50%	Base Year + 5%
State and Federal Grant Awards	Base Year	Base Year + 1%	Base Year + 3%
Revolving Loan Funds	Base Year	Base Year + 2%	Base Year + 4%
Job Creation	Base Year	Base Year + 1%	Base Year + 3%
Job Retention	Base Year	Base Year + 2%	Base Year + 4%
Business Financing	Base Year	Base Year + 2%	Base Year + 4%
Dollars Leveraged	Base Year	Base Year + 2%	Base Year + 4%
Total Project Investment	Base Year	Base Year + 2%	Base Year + 4%

Montana Capital Companies:

The Montana Capital Company Act was designed to stimulate economic activity in Montana by providing tax credit incentives to investors in Montana capital companies, who in turn provide debt and equity financing to new or expanding qualified Montana Businesses. The Department of Commerce is responsible for oversight of the tax credits, qualified investments, and general operations of capital companies. All tax credits that were available under the statute have been used or have expired. **All Capital Company tax credits have been allocated and all Capital Companies have been decertified pursuant to state law as having met their obligations under the certification agreements.**

Census and Economic Information Center (CEIC):

The mission of the Census and Economic Information Center (CEIC) (90-1-109, MCA), located within the Business Resources Division of the Montana Department of Commerce, is to assist individuals, businesses, governments, communities and economic development efforts by providing Montana demographic and economic information and statistics, as well as technical expertise and training.

Since 1978, CEIC has been the State of Montana's lead agency in the U.S. Census Bureau's federal-state cooperative State Data Center (SDC) and Business/Industry Data Center (BIDC) programs, and is a member of the U.S. Bureau of Economic Analysis (BEA) User Group. As such, CEIC has been the official repository of Montana Census data for the past 25 years. CEIC's responsibilities to the SDC/BIDC program, under the Memorandum of Agreement between the U.S. Bureau of the Census and the State of Montana, include the coordination of a 29-member statewide affiliate network. CEIC's comprehensive web site, http://ceic.commerce.state.mt.us, allows clients to research and collect data in an easily accessible, accurate, and timely manner.

Objectives:

Provides individual client research services by:

- Locating and providing data and information related to Montana's population, economics, businesses and other characteristics of the state;
- Assisting clients in understanding data and data resources;
- Providing other technical assistance and training in using CEIC data; and
- Cataloging, maintaining and updating both print and electronic data and reports in the CEIC library.

Increases its data and information accessibility via Internet and Intranet applications by:

- Providing 7-days/week, 24-hours/day access to the full range of Montana demographic and economic data via CEIC's web site http://ceic.commerce.state.mt.us ;
- Allowing users to retrieve pre-formatted tables of data and also retrieve the raw data for their analytical needs;
- Allowing users to search geographically, examine the spatial relationship among the data, and graphically visualize the tabular information; and
- Allowing users to access spatial data analytical tools and applications to integrate data from various sources.

Provides geographic information system (GIS) capabilities by:

- Assisting users to identify, acquire, and use data in a GIS;
- Providing a clearinghouse of data from the U.S. Census Bureau and other agencies;
- Providing technical assistance and workshops to develop GIS applications related to demographic and socioeconomic needs; and
- Creating demographic, economic and administrative maps for clients and Commerce staff who do not have GIS capabilities.

Provide specific training to the State Data Center Affiliate Network, other state agency employees, Commerce staff, various economic organizations and interest groups, and the general public. This effort will result in:

- A more informed and stronger state network of State Data Center Affiliates;
- A state employee labor force with better skills to access and utilize Census data in their everyday work;
- A more knowledgeable public who understand the variety of data resources available to them from state and federal agencies; and
- Improved staff skills to manage and utilize new data products and resources.

PERFORMANCE	CY 2003	Plan CY 2004	Plan CY 2005
Training Workshops	29	30	35
Training Participants	526	540	630
Website Visitor Sessions	124,238	150,000	180,000
Data Requests Via Phone, Email, Walk-in	1,155	1,200	1,250

Trade and International Relations Bureau:

The mission of the Trade and International Relations Bureau is to identify opportunities for worldwide and domestic trade and to provide representation, information and technical assistance. The Bureau helps Montana businesses pursue trade opportunities for the purpose of diversifying their customer base and increasing the sales of Montana products and services. The Bureau coordinates the activities of the state's overseas offices in Taiwan and Japan, works in cooperation with Montana business promotion efforts, manages the Made In Montana program, coordinates international cultural and educational exchange programs, serves as the protocol liaison for the Governor's Office, and works in conjunction with the product promotion efforts of Travel Montana and the Department of Agriculture.

Objectives:

- Provide technical assistance, research and training for Montana companies seeking to enter export markets. Export Counseling will approximate 70 sessions per month. 4 training session per year will be provided to Montana companies in locations around Montana.
- Maintain Chinese and Japanese language websites that feature Montana tourism, education, agriculture, and business promotion information—www.Montana-chinese.org / www.bigskyjapan.com.
- Maintain state trade representative offices in Kumamoto, Japan and Taipei, Taiwan to promote Montana tourism, education, cultural exchanges and to provide business assistance for Montana exporters.
- Provide logistical support in organizing international trade and diplomatic missions.
- Coordinate cultural, education, government, and business exchanges with Montana's sister-states Guangxi Zhuang Autonomous Region, People's Republic of China; Kumamoto Prefecture, Japan; and Taiwan Province, Republic of China on Taiwan.
- Coordinate meetings with Montana, Alberta and Saskatchewan government officials and business leaders to foster greater cross-border understanding and cooperation.
- Serve as the protocol liaison for the State of Montana in coordinating meetings for representatives of foreign diplomatic offices and trade organizations with Montana officials.
- Cooperate with the Montana Department of Agriculture in promoting the export of value-added agricultural products.

PERFORMANCE	CY 2003	Plan CY 2004	Plan CY 2005
Counseling Cases	700	740	780
Counseling Hours	980	1,036	1,092
Hours Per Case	1.4	1.4	1.4
Training Workshops	NA	4	4
Training Participants	NA	60	70
Japanese Website Sessions	61,320	65,000	70,000
Chinese Website Sessions	50,664	52,500	55,000
Overseas Media Value	$1,664,738	$1,700,000	$1,750,000
Chinese Visitors Overnight	44,014	45,000	46,000
Japanese Visitors Overnight	37,210	38,000	39,000

Made In Montana Program:

The Made in Montana program is designed to provide a unique identity to value-added products made and/or grown in Montana through the application of labels to Montana products. The program encourages businesses that meet the program requirements to utilize the trademarked image on their products. Since the inception of the program in 1984, over 23 million Made In Montana & Grown In Montana labels have been sold.

Value-added means a finished product that has been created, made, produced, or enhanced in Montana resulting in a 50% or more added value. Montana resident artists, authors, and performers qualify as Made in Montana program members.

Objectives:

- Coordinate an annual state-wide Made In Montana Food and Gift Trade Show.
- Evaluate the location and venue for the Trade and Gift show with the goal of increasing the number of Montana companies and vendors that participate.
- Identify a pricing structure for participation that enables funding for further assistance with regional and national shows for selected Montana companies.
- Implement new procedures for identifying and qualifying Montana companies to expand their operations through regional and national trade show participation.
- Evaluate training opportunities and provide effective training to MIM companies to better enable them to succeed in profitably producing and marketing their products.
- Continue to identify and assist Montana companies who choose to use the Made-in-Montana label on their products.
- Maintain an internet based Montana products directory with links to Montana companies' web-sites and work toward allowing MIM companies to update their company information via the internet.
- Help Montana consumers and companies to identify products produced in Montana that are available to meet their needs.

PERFORMANCE	CY 2003	Plan CY 2004	Plan CY 2005
Counseling Cases	720	750	780
Counseling Hours	840	876	912
Hours Per Case	1.2	1.2	1.2
Training Workshops	3	3	3
Training Participants	120	130	140

Small Business Development Center Bureau:

Small Business Development Centers (SBDC's):

The mission of the Montana Small Business Development Center is to help start-up and existing businesses to prosper by providing information and assistance through quality one-on-one counseling and training. With the Lead Center located in the state's capital city, and sub-centers based in 10 major Montana communities hosted by local economic development organizations, the Montana SBDC delivery system is designed to reach the state's entire population with its services and programs.

Objectives:

- The SBDC will serve the state's business needs, both start-ups and existing, through training and counseling via ten statewide offices, Billings, Butte, Bozeman, Colstrip, Great Falls, Havre, Helena, Kalispell, Missoula and Wolf Point. It is expected that the program will be shifting the emphasis to increase counseling services to existing businesses and decrease one-time counseling sessions to individuals wanting to start a business.
- The Montana SBDC program's two primary services are providing individualized counseling and training (in that order) in the areas of business plan preparation, starting a business, financial planning, market research & analysis, loan packaging, accounting, promotion & selling, and business management skills.

- Counseling services should be of the highest quality possible and will be assured by establishing in the near future that the subcenter counselors attend and pass a certified training program and maintain this core level of skills by attending annual professional development sessions.

PERFORMANCE	CY 2003	Plan CY 2004	Plan CY 2005
Counseling Cases	1,569	860	877
Counseling Hours	6,214	6,116	6,238
Hours Per Case	4.1	4.5	4.7
Training Workshops	216	238	243
Training Participants	2,316	2,364	2,411
Job Creation	459	593	480
Job Retention	624	1,610	648
Business Financing	$33,860,712	$34,700,000	$35,500,000
Dollars Leveraged	$1 State : $7:50 Fed/Local	Same	Same
Total Project Investment	$54,438,238	$55,800,000	$57,000,000

Small Business Innovation Research (SBIR):

Ten (10) federal agencies currently participate in the Small Business Innovative Research (SBIR) program. Those federal agencies with external R&D budgets in excess of $100,000,000 are required by federal statute to conduct an SBIR program. Funds allocated to the SBIR program are established as 2.5% of their external R&D budgets. Over $1 billion is distributed throughout the U.S. annually to for-profit small businesses through the SBIR program. The SBIR technical assistance will assist small Montana companies in competing for a larger piece of this federal R&D funding. Increasing the number of SBIR awards in Montana will play a key role in creating a growing technology business base in the state, a primary engine of growth.

Objectives:

The Montana Department of Commerce has adopted a state plan for Small Business Innovation Research that contains objectives and work plans for the program. Outcome indicators for the SBIR program are:

- Increase the number of SBIR Phase I Awards won by Montana companies to 20.
- Increase the number of Phase II SBIR awards to 7.
- Increase the conversion rate of Phase I awards to Phase II awards from 20% to 35%.
- Sponsor 8 SBIR workshops that will reach 320 participants.
- Sponsor one SBIR conference that will reach 150 participants.
- Provide 600 hours of counseling to 100 small businesses that are SBIR candidates or existing SBIR award winners.
- Design and implement a mentoring network of SBIR award winners. In order to develop an effective network, the SBIR program will administer a needs assessment to all SBIR winners to measure: willingness to participate in the program, expectations of each mentor, allocation of time commitments, etc.
- Create a SBIR Advisory Council. In conjunction with the Governor's Office, the SBIR Program will create an advisory council comprised of public and private sector representatives.
- Develop a five-year strategic plan. With the assistance and guidance of the SBIR Advisory Council, the SBIR Program will develop a five-year strategic plan.

PERFORMANCE	CY 2003	Plan CY 2004	Plan CY 2005
SBIR inquiries with no follow-up required	48	60	75
SBIR Cases	85	100	115
Counseling Hours	255	280	300
Training Workshops (includes presentations, seminars, & two conferences)	10	10	12
Training Participants (includes presentations, seminars, & two conferences for 2004)	250	400	400 (only one conference will be produced)
Phase 1 SBIR Awards	24	30	36
Phase 1 SBIR Award Revenues	$4,606,665	$5,758,833	$6,909,984
Phase 2 SBIR Awards	9	11	13
Phase 2 Award Revenues	$2,249,471	$2,749,351	$3,249,233
Phase 1 STTR Awards	2	4	6
Phase 1 STTR Revenues	$494,296	$988,600	$1,482,900
Phase 2 STTR Awards	1	2	4
Phase 2 STTR Revenues	$500,000	$1,000,000	$2,000,000
Phase 0 to Phase 1 award conversions; information pending because some companies have until 2004 to submit Phase 1 proposals	40%	80%	80%
List Serve of SBIR subscribers	450	576	650

Montana Microbusiness Finance Program:

Montana's MicroBusiness Development Corporations (MBDCs) are revolving loan funds which provide financing and technical assistance to help a business get started or to expand. Commerce loans the money at 2.75% interest to the MBDCs who in turn loan out the money at a slightly higher interest rate. The MBDCs make loans up to $35,000 for working capital, equipment, or other fixed assets for qualified micro-businesses. A qualified micro-business must be a Montana-based business that has ten or fewer employees and less than $500,000 in annual revenues. To qualify for a loan the business needs to meet local lending criteria. Since the intent of the program is to finance business projects that would not otherwise be able to obtain financing from sources such as their local bank, the interest rates charged on the loans are slightly higher than bank rates.

Objectives:

- Make the micro-business loan program available statewide.
- Increase awareness of the availability of micro-loan funds through marketing efforts at the local and state level.
- Cultivate effective working relationships between MBDC staff and other resources, specifically Small Business Development Center business consultants, to assist low to moderate-income and people interested in self-employment.
- Ensure that the state funds are actively revolving through more effective local loan fund administration and reallocation of unloaned funds.

Improve the capacity of the MBDCs to provide loans and technical assistance:

- Improve the capacity of the MBDCs to underwrite and service their microloan portfolios.
- Improve the capacity of the MBDCs to provide training and technical assistance to their customers.
- Encourage and allocate funding for professional development and training for MBDC loan officers.

Since Its Inception (1992) through 12/31/04

*	Number of loans to micro-businesses	**788**
*	Dollar amount loaned to micro-businesses	**$12,695,911**
*	Jobs created and retained by businesses receiving loans	**950**

PERFORMANCE	FY 2003	Plan FY 2004	Plan FY 2005
Total Number of Loans	36	40	45
Total Dollar Amount of Loans	$621,397	$761,000	$936,000
Number of Clients Served	1,205	1300	1400
Technical Assistance Hours Provided	2,874	2900	2950
FTEs Created	24	35	40
FTEs Retained	25.5	35	40
Dollars Leveraged: Network Quarterly Average of Match Maintained. Dollars Leveraged from Match is 1.5 times the Requirement of $1 of local funds for every $6 of state funds	$876,860	$876,860	$876,860

Microbusiness Technical Assistance Program:

The Montana Microbusiness Technical Assistance Program is funded primarily through a grant from the United States Small Business Administration. The goal of the program is to provide technical assistance to low to moderate-income individuals to assist them in obtaining private sector financing of up to $25,000 to start or expand a small business. The focus of the Montana program is to supplement existing business counseling and training resources by providing basic business management training through a combination of traditional classroom style training and internet training. The program utilizes the NxLeveL business Plan Basics curriculum. The program has developed an on-line version of the course that targets remote rural businesses, low or moderate-income individuals, people with disabilities, and native Americans.

Objectives:

- Build the business management skills of rural and reservation based micro-businesses.
- Utilize technology to provide basic business management training to low to moderate income individuals to help them secure financing to start or expand a business in Montana.
- Develop close and effective working relationships between staff and other resources including FAIM caseworkers, Job Service staff, Vocational Rehabilitation counselors, and Small Business Development Center counselors that work with low to moderate income people interested in self employment.
- Encourage and support the formation of statewide peer support telephone based networks to connect isolated rural entrepreneurs to more experienced business owners to provide an on-going support and mentoring service.

PERFORMANCE	CY 2003	Plan CY 2004	Plan CY 2005
Training Sites	26	26	26
Training Participants	333	330	330
Total Number of Loans and Grants	45	45	45
Total Loan Amounts	$1,272,323	$1,300,000	$1,300,000
Total Project Investment	$120,000	$120,000	$120,000

Montana Promotion Division:

The Montana Promotion Division strives to strengthen Montana's economy through increased visitor travel, visitor expenditures, and film production, in the state. The division works to project a positive image of the state through consumer advertising, electronic marketing, publicity, international and domestic group travel marketing, printing and distribution of literature, and marketing to motion picture and television production companies. The division provides training and assistance to the Montana tourism industry, administers, and distributes infrastructure grants and oversees expenditures of six regional non-profit corporations and the ten qualified convention and visitors bureaus.

The Montana Promotion Division is primarily funded by the statutorily appropriated lodging facility use tax.

Montana Promotion Division responsibilities are mandated primarily in Title 15, Chapter 65, and Title 2, Chapter 15, MCA.

Mission:

To strengthen Montana's economy through the promotion of the state as a vacation destination and film location; by maximizing the combined talents and abilities of its staff: and with guidance from the Governor's Tourism Advisory Council: the Montana Promotion Division strives to promote a quality experience to visitors while encouraging preservation of Montana's environment and quality of life.

Goals and Objectives:

In support of this mission, the Division works to project a positive image of the state through consumer advertising, electronic marketing, publicity, international and domestic group travel marketing, printing and distribution of literature, and marketing to motion picture and television production companies. The Division is funded primarily by the statutorily appropriated lodging facility use tax and uses these monies to provide training and assistance to the Montana tourism industry, administer and distribute infrastructure grants, and oversee expenditures of six regional non-profit corporations and the ten specific cities and resort area districts.

Film Promotion (Montana Film Office):

The Montana Film Office promotes the state as a location for feature films, commercials, television, documentaries, music videos, and still photography by providing information, scouting, and support services to the motion picture industry – including producers, directors, location managers, and studio executives.

Tourism Promotion (Travel Montana):

Marketing:

Consumer Marketing:

Travel Montana's consumer marketing program is designed to position Montana's vacation opportunities in the minds of consumers, motivating them to consider Montana as a prime visitor destination. Paid advertising, including joint ventures with private-sector tourism industry partners and other appropriate state and provincial travel offices, is the major marketing tool used to reach this goal.

Group Marketing:

Montana's domestic group travel program promotes Montana's many group tour and travel opportunities by marketing directly to group tour operators throughout the United States and Canada. Montana is promoted as a tour destination, as well as a viable stopover on tour itineraries. This program markets all seasons in Montana and encompasses activities from sightseeing to river rafting and skiing. Its goals are to: provide tour operators with the tools to build a successful Montana tour itinerary; generate more awareness of statewide group tour products, including Lewis and Clark Trail attractions and events of interest to the group tour market; create more interest in Montana as a group tour destination.

Overseas Marketing:

Travel Montana aggressively promotes Montana as a destination to the international travel trade, with emphasis on the United Kingdom, Germany, France, Belgium, the Netherlands, Italy, Japan and Taiwan. The program involves working with key tour operators, wholesalers, travel agencies and the media to establish new Montana itineraries for groups and Foreign Independent Travelers (FITs), while assisting Montana businesses in their marketing efforts overseas.

Publications:

Travel Montana publications provide flavorful and factual coverage of Montana's year-round recreation and attractions to visitors of all ages. They are often a potential visitor's first glimpse at what Montana has to offer and play an important part in the vacation planning process of travelers. In addition, the publications are used as the fulfillment component to our consumer marketing efforts. Providing accurate, reader-friendly information, the guides are easy to use and visually portray Montana at its best. The publications also present Montana businesses with affordable opportunities to advertise through its consumer guides.

Publicity:

Publicity is one of the most believable and effective types of exposure a travel destination can receive. Travel Montana uses an aggressive plan to generate editorial exposure in national and international magazines, newspapers and television shows, as well as regional and local publications.

Photography:

Beautiful and enticing photographs are an important component of all of our marketing efforts, from publications to the various Internet sites. In addition, the tourism office annually receives numerous requests from tour operators and media for images to use in their Montana promotional plans. Our staff photographer ensures that the appropriate images are available for the marketing department, Film Office, Department of Commerce and for our tourism suppliers, trade, and media contacts.

Tourism Development and Education:

The Tourism Development and Education efforts are focused on helping the state's communities and businesses utilize tourism as a tool to improve the local, regional and state economy while protecting or improving the quality of life for Montana's residents. The components of the Tourism Development and Education programs include: rural tourism development; statewide tourism infrastructure improvements grants and technical assistance; financial and technical assistance in creating new, ongoing special events as part of a community or region's economic development efforts; assisting Montana's Indian people in their tourism efforts; helping create cultural tourism partnerships and products statewide; coordinating tourism and recreation policies, programs and initiatives of federal and state agencies, communities, and the private sector and providing customer service and tourism education training programs.

Electronic Marketing:

This program uses cutting-edge technologies to create state-of-the-art information systems. These systems are designed to complement the existing tourism marketing efforts. They have proven to be a cost-effective way to disseminate timely information to Montana residents and visitors and will continue to play a crucial role in Travel Montana's marketing efforts.

Industry Services:

Industry services support's nonprofit tourism organizations and private-sector businesses to enhance and strengthen marketing efforts that increase business, as well as provide opportunities for the industry to unite and work together.

Operations:

Operations support's the fulfillment of the inquiries received via the electronic marketing and consumer marketing with publications and emails. This fulfillment utilizes a call center as well as mailroom functions.

Community Development Division:

The Community Development Division works with federal, state, and local governments, private non-profit organizations, and private citizens, in regard to community needs identification, public facilities planning and financing, housing development for low and moderate income families, neighborhood revitalization, and coal and hard rock mining mitigation, as well as management of projects funded through division programs.

There are two major programs directly administered by the Division:

- The Community Development Block Grant Program (CDBG), and
- The Treasure State Endowment Program (TSEP).

The Montana Coal Board and the Montana Hard Rock Mining Impact Board are also attached to the Community Development Division for administrative purposes. The Division provides office facilities and necessary staff and administrative support for the boards.

These four programs provide both financial and technical assistance to Montana communities, local elected officials and staff, nonprofit organizations, private sector developers and consultants, Indian Tribes, and private citizens. Other assisted entities include local planning boards and zoning commissions, community development corporations, human resource development councils, water and sewer districts, fire departments, and housing authorities.

- The Community Development Block Grant (CDBG) program is primarily funded with federal funds allocated through the U.S. Department of Housing and Urban Development (HUD) although the general fund provides a required match for a portion of the administrative costs of the program equal to two percent of the annual CDBG allocation.
- The Coal Board is funded from the coal severance tax shared state special revenue account. This account receives its revenues from 7.75 percent of all coal severance tax collections. The shared account funds the Coal Board Local Impact Grants, pass-through funding for conservation districts, a portion of the Growth Through Agriculture program, and state library services through the State Library Commission.
- The Hard-Rock Mining Impact Board is funded by a 2.5 percent allocation of the Metalliferous Mines License Tax.
- The Treasure State Endowment Program is funded by interest earnings from the treasure state endowment fund, a sub-fund within the coal tax trust fund. Fifty percent of the coal severance taxes that go into the coal tax trust fund are to be transferred to the treasure state endowment fund for a 20-year period, which began in 1993.

The Community Development Division's responsibilities are primarily mandated in Title 90, Chapter 1 and Chapter 6, MCA; and federal authorizations 24 CFR 570, subpart 1; and 42 USC 5301.

Mission:

To provide technical and financial assistance to county and municipal governing bodies, planning boards, community development groups, human resources development agencies, private developers, consultants, and the public regarding community planning and needs identification, public facilities planning and financing, community development and housing planning and financing; and coal and hard rock mining impact mitigation.

Goals and Objectives / Performance Indicators:

Coal Board:

The Coal Board, created by the Legislature in 1975, assists local governments, which have been required to expand the provision of public services as a consequence of large-scale coal development or a decline in coal-related activity. This seven-member board, appointed by the Governor, establishes administrative policies and implements state law. The Coal Board funds applications for grants awarded pursuant to 90-6-207, MCA, which provides guidelines for identifying those counties, communities, school districts, or other governmental entities that qualify as 'impacted' through the development, use, or decline of coal production.

Coal Board	Actual FY 2002	Actual FY 2003	Actual FY 2004	Estimated FY 2005	Requested FY 2006	Requested FY 2007
Applications	24	30	24	24	30	25
Grants	12	16	9	10	15	10
Board Meetings	4	4	4	4	4	4
Conference Calls	1	1	4	2	2	2

Coal Board Grants:

The Coal Board anticipates increased future demand for local impact grants due to increased activity involving coal mining and energy generation development as demonstrated by projects either already permitted or currently in the permitting or planning stage. These include the following projects:

- A coal-fired electric and wood co-generation plant is under construction in Thompson Falls that would burn 550 rail car loads of coal from the Bull Mountain Mine near Roundup annually. Construction of the plant is almost complete.
- An MDU subsidiary, Centennial Power, has received the necessary permits and started construction on a 160-megawatt coal-fired generating plant at Hardin that is planned to be on-line by late 2005. MDU has signed a three-year contract to sell the power from the plant to Powerex, a subsidiary of BC Hydro. When completed, the plant will employ 33 people.
- Bull Mountain Power has proposed two 350-megawatt coal-fired generators using 2.7 million tons of coal per year from the Bull Mountain Mine at Roundup. The Montana Environmental Information Center has appealed the air quality permit issued by the Montana DEQ for the project. The case will be heard in district court in Roundup in 2004.
- Great Northern Power Development of Denver and Kiewit Mining Group of Omaha have proposed a $1 billion 500-megawatt coal-fired generating plant near Nelson Creek west of Circle. The project will be submitting its applications for state required permits in 2004. The project would be just east of Highway 24 and north of Montana 200 and would go on line in 2009. Circle, Jordan, Glasgow, Glendive, and Wolf Point would be the communities most likely impacted by the project. Direct and in-direct employment is estimated at 1,200 jobs.
- The Southern Montana Electric G & T Co-op, created in 2003 by five Montana rural electric co-operatives, has proposed a 250-megawatt coal-fired power plant 8 miles east of Great Falls. The $470 million plant would use about 1.1 million tons of Montana coal annually. The plant would require about 400 workers for construction and 65 permanent workers for operation. The co-op will apply for its required permits in 2004.
- The Otter Creek Tracts 1, 2, and 3 coal deposits, with over 533 million tons of estimated super-compliant coal reserves, have been proposed as the site for a 3,500-megawatt coal generation plant by Kennecott, Bechtel, and Wesco.
- Great River Energy's Stanton, N.D. power plant is considering converting to burning sub-bituminous coal from Kennecott Energy's Spring Creek Mine near Decker, MT.

The list of projects above does not include the five other existing Montana coal mines that mine sub-bituminous coal including Decker Coal Company at Decker, the Peabody Group's Big Sky Mine at Colstrip, Western Energy Company's Rosebud Mine at Colstrip (which mined 10.1 million tons in 2003), and Westmoreland Resources' Absaloka Mine at Hardin. In addition, Westmoreland Resources has a lignite mine at Savage that produced 300,000 tons of coal in 2003.

Hard Rock Mining Impact Board:

The Montana Hard Rock Mining Impact Board, created by the Legislature in 1981, exists to provide technical assistance, analysis, and mitigation and mediation services to local governments and hard rock mining developers where potentially adverse public fiscal impacts from large-scale development are identified. This five-member board, appointed by the Governor, establishes administrative policies and implements state law The Board administers the Hard-

Rock Mining Impact Act (HRMI) (90-6-301, MCA) and the companion Property Tax Base Sharing Act (PTBS) (90-1-401, MCA) and provides technical assistance with metal mines license tax distributions. The Board adjudicates disputes between affected entities. The purpose of HRMI and PTBS acts is to mitigate the local government service, facility and fiscal impacts from new large-scale hard-rock mineral developments in Montana.

Mineral developers and affected local governments prepare and implement impact plans intended to ensure that local government services and facilities are available when and where they are needed as a result of new mineral developments, without imposing additional costs on existing local taxpayers. Developers pay new capital and net operating costs through prepaid property taxes with a subsequent tax credit, grants, or facility impact bonds.

Currently, only the Stillwater Mining Company's Nye Mine in Stillwater County and East Boulder Mine in Sweetgrass County have adopted and approved impact plans. Both mines are platinum and palladium mines.

Revett Silver Company, previously known as Sterling Mining Company, has proposed reopening the Troy Mine, a copper and silver mine ten miles south of Troy. The mine began operating in 1981 but closed in 1993 because of low metals prices, resulting in the loss of 320 jobs in the area.

Hard Rock	Actual FY 2002	Actual FY 2003	Actual FY 2004	Estimated FY 2005	Requested FY 2006	Requested FY 2007
Board Meetings	4	2	1	2	2	2
Conference Calls	2	4	4	4	4	4

Treasure State Endowment Program (TSEP):

TSEP is a state-funded grant program created to help local governments fund infrastructure projects, defined by statute as drinking water systems, wastewater treatment, sanitary sewer or storm sewer systems, solid waste disposal and separation systems, including site acquisition, preparation, or monitoring; and bridges. TSEP was authorized by Montana voters through the passage of Legislative Referendum 110 in June 1992 (90-6-701, MCA).

Construction Projects – Applications Received and Reviewed:

Applications for funding local government public facility construction projects are accepted by the program in even-numbered years preceding the Legislature, since projects and funding must be approved by the Legislature. The program received 47 applications in FY 2004, with half of their review and evaluation occurring in FY 2005. These applicants are competing for funds that will become available during the 2007 biennium. The treasure state endowment fund grows each year, which in turn provides more funds each biennium for award to construction projects. As a result of the predictable increase in program funds that would be available to award to construction projects, and a continued increase in the number of applications from counties for bridge projects, the program estimates that a similar number of applications, if not more, would be received and reviewed in FY 2006 and 2007.

Construction Projects – Awards:

Construction projects are authorized for funding every other year by the Legislature. Forty projects were awarded matching grants by the 2003 Legislature. Based on the interest earnings received from the treasure state endowment fund in FY 2004, it appears that the total amount of interest earnings that was projected and awarded by the Legislature will, in fact, be received during the 2005 biennium, and there will be sufficient funds for all forty projects. The estimated 44 new projects that would potentially be funded from the 2007 biennium interest earnings assumes that approximately $18 million would be received during the 2007 biennium.

Active Construction Projects:

Once TSEP funds have been awarded by the Legislature to communities for a construction project, the project is considered "active" until it is "conditionally closed." During this time period, the program staff assists the local government in administering program funds and managing the construction of the project in compliance with state laws and regulations. An active project is conditionally closed when the construction project has been completed and accepted by the local government, and the local government has submitted documentation describing what was actually accomplished and expended for each funding source involved in the project. Once the project is conditionally closed, the final disbursement of TSEP funds is provided to the local government. The estimate for FY 2005 is based on the 74 active construction projects at the end of FY 2004, less approximately 40 that are likely to be conditionally closed during FY 2005. The estimate for FY 2006 and FY 2007 assumes that 44 new construction projects would be awarded TSEP funds by the 2005 Legislature.

Preliminary Engineering Grants:

The 2000 Special Session of the 56th Legislative Assembly statutorily appropriated $425,000 for each biennium beginning in FY 2002, and ending at the end of FY 2005, for the purpose of providing communities with matching grants for preliminary engineering work. In order to submit an application requesting TSEP funding for a construction project, the applicant must include a detailed preliminary engineering report, which documents the problems, evaluates all reasonable alternative solutions, and finally, describes the alternative that the applicant has selected to solve the problems. The Department of Commerce established a limit of $15,000 per study. The department awarded 40 grants totaling $423,479 during the 2003 biennium in order for local governments to evaluate their public facilities, and all but one have completed their studies. The department awarded 32 grants totaling $425,000 during the 2005 biennium, and 25 of those studies have been completed. Of the 47 applications for construction projects received in FY 2004, 29 of the local governments also received a TSEP grant to help fund their preliminary engineering study. Because the statutory appropriation for TSEP grants for preliminary engineering work would be terminating at the end of FY 2005, the department is including a request in HB 11 for $500,000 to be used for the same purpose. The estimated number of studies that will be funded in FY 2006 and FY 2007 assumes that $500,000 would be appropriated and that each of the 34 communities applying would request the maximum amount allowed. Potentially, several more grants could be awarded if some applicants request or use less than $15,000.

Emergency Grants:

Starting in 2001, the Legislature appropriated $100,000 each biennium to be used by the department to award grants to local governments for emergency public facility projects that could not wait for legislative approval. The program established a general limit of $30,000 per project. Five emergency projects were funded during the 2003 biennium. Several other requests were received, but were not funded because they were not deemed to be an emergency. Three emergency projects were funded in FY 2004. With approximately $77,000 remaining, at least three to four more emergency projects could be funded in the remaining portion of FY 2005. The estimated number of emergency projects to be funded during the 2007 biennium assumes that the Legislature would again appropriate $100,000 for emergency projects and each project funded receives less than $30,000. Potentially, a few more grants could be awarded if some applicants request less than $15,000. Typically, the awards for emergency bridge projects have been $5,000 or less, and bridge projects account for approximately 50 percent of the emergency awards to date.

TSEP	Actual FY 2002	Actual FY 2003	Actual FY 2004	Estimated FY 2005	Requested FY 2006	Requested FY 2007
Construction Applications Received	55	0	47	0	50	0
Construction Awards	0	40	0	44	0	48
Active Construction Projects	55	40	74	34	78	70
Preliminary Engineering Awards	39	0	32	0	34	0
Emergency Awards	2	3	3	4	3	3

Community Development Block Grant (CDBG) Program:

Active Projects:

Montana has been operating the CDBG Program in cooperation with the U.S. Department of Housing and Urban Development (HUD) since 1982. Since that time, Montana has received over 100 million dollars in CDBG funds for the housing and public facilities categories. Typically, at any one time, the CDBG Program for Housing and Public Facilities is responsible for the administration of over forty public facilities and housing projects that are underway within the State. The majority of the public facilities projects are grants to local governments to undertake needed water and wastewater system improvements. Grants have also been made to Montana local governments to fund senior centers, fire halls, hospitals, and Head Start centers.

Local governments can also use the CDBG program to fund the rehabilitation of substandard homes within a community or to undertake the new construction of housing units for low and moderate income persons, working in conjunction with a non-profit organization that will own and operate the housing project. Housing grants are also made to local governments to provide down payment assistance for housing purchase by low and moderate income families.

The program is also responsible for the administration of approximately 12 to 18 planning grants that are awarded annually to local governments to assist them in identifying public facilities or housing needs, or to prepare comprehensive plans (now termed “growth policies” under changes enacted by the Legislature in 1999), as well as capital improvement programs.

Three formal grant competitions are normally held each year: a spring grant competition for planning grants; a summer grant competition for public facilities; and a fall grant competition for housing projects. CDBG staff is responsible for ensuring that federal and state laws and regulations are complied with during the implementation of local projects. CDBG staff also devotes extensive time to assist local governments in administering their projects. Active projects are conditionally closed when the project has been completed and accepted by the local government. The project is granted final closeout status after submission of a local government audit, which includes the CDBG project funds.

For several years, Congress and HUD have been placing increasing pressure on all of the states that administer the CDBG program to expedite the expenditure of their CDBG funds. Overall, Montana has had a good track record in the expenditure of CDBG funds, ranking in the top quarter of states in its rate of spending. However, in response to Congress' concerns and with HUD's encouragement, the Department of Commerce changed the funding cycle beginning with the FFY 2003 and 2004 CDBG programs. To accelerate the funding cycle, the Department conducted grant competitions for federal fiscal years 2002, 2003 and 2004 funding allocations during calendar years 2002 and 2003. This acceleration of the grant cycles was a one-time only event.

The objective of this change was to establish a long-term annual grant application cycle for future years that would provide for the ranking of both housing and public facility applications in the calendar year prior to the actual receipt of the FFY CDBG allocation that will fund those projects. This will allow the department to award grants to communities immediately upon HUD's notification to the State of that fiscal year's CDBG allocation.

Grants are awarded in order of the ranking scores assigned during the previous calendar year's grant competition, based on the amount of funds allocated to the housing and public facilities project categories. This eliminates the lag time between the receipt of the State's CDBG allocation and the award of those funds. This is a step that has either already been implemented or is being seriously considered by several other states which administer the State CDBG Program. This action also has the benefit of allowing public facility projects applying for both CDBG and TSEP funding to be reviewed in even-numbered years by both programs concurrently.

Successful applicants under the public facilities grant competition announced in September will be able to draw upon funds seven months later in April when CDBG funds are received from HUD. Similarly, successful housing grant applicants announced in February will be able to draw upon funds two months later when the CDBG funds are received from HUD in April.

CDBG	Actual FY 2002	Actual FY 2003	Actual FY 2004	Estimated FY 2005	Requested FY 2006	Requested FY 2007
Applications Reviewed						
Public Facilities	8	13	10	14	14	14
Housing	7*	*	6	8	8	8
Planning	17	26	33	30	35**	30
Grants Awarded						
Public Facilities	8	12	7	10	10	10
Housing	4*	*	3	4	4	4
Planning	13	16	14	20	20	20

* Housing applications were combined for FY 2002/2003

** Higher number of CDBG planning grant applications is anticipated in even-numbered years because all available TSEP preliminary engineering grant funds is generally disbursed in the first year of the biennium.

Facility Finance Authority:

The Facility Finance Authority was created by the 1983 Legislature to assist health care and related facilities in containing future health care costs by offering debt financing or refinancing at low-cost, tax-exempt interest rates for buildings and capital equipment. The legislature extended eligible facilities to include community pre-release centers. Cost savings are shared with consumers in the form of lower fees.

The Facility Finance Authority is funded entirely by proprietary funds (enterprise accounting entities 06012 and 06015) with revenues collected from interest, fees, and charges from participating institutions. There are no direct appropriations provided in HB 2.

The Authority is primarily mandated in Title 90, Chapter 7 and Title 2, Chapter 15, MCA.

Mission:

To develop and maintain statewide financing programs which provide for and maintain access to the broadest range of low-cost capital financings as possible for eligible non-profit private and public institutions, which will promote affordable access to and availability of services for the consumer.

Goals and Objectives:

To maintain and improve current financing programs while developing new funding options.

To develop and implement effective financing plans for under served borrowers by pursuing financing options for Critical Access Hospitals and "bank eligibility."

To promote a greater understanding and utilization of the Authority financing programs by participating in, sponsoring and speaking at conferences and disseminating information to clients and new administrators.

To fiscally and physically maintain an office structure that can respond to the borrowers and bond investor's needs.

To provide resources for the advancement of tax-exempt financing on a national level by serving on committees of national organizations and meeting with congressional representatives.

HB 576 Program Description:

The Facility Finance Authority was created by the 1983 Legislature to assist health care and related facilities in containing future health care costs by offering debt financing or refinancing at low-cost, tax-exempt interest rates for buildings and capital equipment. The legislature extended eligible facilities to include community pre-release centers. Cost savings are shared with consumers in the form of lower fees.

The Facility Finance Authority is funded entirely by proprietary funds (enterprise accounting entities 06012 and 06015) with revenues collected from interest, fees, and charges from participating institutions. There are no direct appropriations provided in HB 2.

The Authority is primarily mandated in Title 90, Chapter 7 and Title 2, Chapter 15, MCA.

Customers include health care and related facilities, entities serving persons with development and/or mental disabilities, and prerelease centers.

There has not been any significant program, service, or customer base change since the last session.

HB 576 Revenues, Expenses, and Fund Equity:

Revenue Description:

The Facility Finance Authority is funded entirely by proprietary funds (enterprise accounting entities 06012 and 06015) with revenues collected from interest, fees, and charges from participating institutions. There are no direct appropriations provided in HB 2.

The Authority has gradually reduced its application and annual administrative fee assessments contingent upon its business volume. Customer volume is assumed to be at the current level throughout the 2007 biennium.

Authority revenues are primarily recorded in the following SABHRS revenue codes:

	FY 2004	%
521135	$ 55,009.00	15.631%
521136	$ 190,993.61	54.270%
521137	$ 65,348.50	18.569%
522017	$ 42.76	0.012%
522110	$ 445.75	0.127%
530025	$ 20,099.17	5.711%
538006	$ 19,992.20	5.681%
Totals:	$ 351,930.99	100.000%

Expense Description:

The major cost drivers within the Facilities Finance Authority are personal services, operating expenses, grants, and expenditures related to the periodic replacement of computer equipment. The major cost drivers for the Authority can best be represented in the following table:

	FY 2004	%
FTE	2.00	
Personal Services	$ 153,557.44	56.435%
Operating Expenses	$ 101,353.53	37.249%
Grants	$ 17,184.43	6.316%
Totals:	$ 272,095.40	100.000%

There is little uncertainty in forecasting future costs of major cost drivers, unless the Authority were to become involved in litigation related to the issuance and maintenance of bonds.

For the purposes of this analysis, it is assumed the Authority's ongoing work and customer levels remain constant. Non-typical and one time only expenses, if any, are subtracted from any proposed budgets. Personal services expenditures fund 2.00 FTE and Board Member Per Diem.

Working Capital Discussion:

The 60 day Working Capital Calculation is not reasonably applicable to the Authority because national bond rating agencies, national bond insurers, and institutional investors expect the

Authority to reserve two years operating capital (approximately $515,000) to assure that the Authority can financially operate between legislative sessions.

Fund Equity and Reserved Fund Balance:

The Total Fund Equity requirement for the 2007 biennium ($5,000,000) is derived from the following Authority Program Reserve mandates:

A. Biennium Working Capital Reserve; $515,000
B. Capital Reserve Account (Loan Loss Reserve); $3,570,000
C. Facility Direct Loan Program Reserve; $915,000

Rate Explanation:

The Facilities Finance Authority is funded by an enterprise fund; accounting entities 06012 and 06015; and Authority customers are outside of state government. The fee structure that is proposed does not materially vary from that proposed in the last session.

Housing Division:

The Housing Division established on July 1, 1995, consolidated housing programs within the Department of Commerce into one division. The division includes the Housing and Urban Development (HUD) HOME Investment Partnerships program, the HUD Tenant Based and Project Based Section 8 Housing programs, and the Board of Housing and its programs.

Housing Division responsibilities are mandated primarily in Title 2, Chapter 15; Title 90, Chapter 1, and Chapter 6, MCA; 24 CFR 91, and 92; 24 CFR 5, 792, 813, 887, 982, and 984; and the Governor's Executive Order 27-81.

Mission:

To provide mechanisms that enable Montanans to own or rent decent, safe, and sanitary housing that is within their financial capability.

Goals and Objectives:

In order to fulfill its mission the Housing Division is committed to achieving the following goals and objectives:

- Expand coordination of housing activities within the Housing Division, and with other housing providers, both private and governmental, to ensure maximum possible high quality development and maintenance of housing stock within the state, while minimizing use of resources and duplication of services.
- Continue and expand involvement of Housing Division personnel in the Housing Coordinating Team, an interagency group meeting to discuss issues related to housing and coordination of programs. Create standardized application documents for grant, loan and tax credit funds where possible. Combine applications workshops and use a "team" approach to setting up application workshops and required public hearings.
- Provide exemplary customer service by resolving questions for our customers rather than passing them along to another person or agency if at all possible.

Board of Housing:

The Montana Housing Act of 1975 created the Montana Board of Housing. The Board is an agency of the State and operates within the Department of Commerce for administrative purposes. Under the Housing Act the Board does not receive appropriations from the State's general fund and is completely self-supporting. Substantially all of the funds for the Board's operations and programs are provided by the private sector through the sale of tax-exempt bonds. The powers of the Board are vested in a seven member Board, appointed by the Governor, subject to the confirmation of the State Senate. The Board provides policy direction to the agency staff, authorizes bond issues, approves development financing and evaluates Board Housing Programs. These programs include the Single Family Program, Recycled Single Family Program, Multifamily Loan Programs, Low Income Housing Tax Credit Program, Housing Revolving Loan Fund and the Reverse Annuity Mortgage (RAM) Program.

The Board of Housing is funded by four enterprise funds with revenues derived from an administrative charge applied to projects and mortgages financed. Under the Montana Housing Act of 1975, the board does not receive any general fund, and is completely self-supporting.

Board of Housing Goals & Objectives:

- Continue automation of functions to improve operational efficiency and decrease need for additional staff. Continue to look at new ways of operating to improve efficiency and timeliness.
- Manage the assets of the Board in the most effective manner to enhance the ability to provide housing finance for lower income Montanans. Use any program earnings to recycle into new mortgages or call bonds.
- Continuously review programs to determine if they are meeting the needs of the population they are intended to serve. Continue to change program requirements based on current conditions.
- Increase education and outreach to the citizens of Montana and the Board's customers and servicers through public appearances, workshops, print media, and other means as appropriate.
- Provide training to lenders and Realtors, as well as work with non-profits to provide homebuyer education and post purchase education.
- Develop and implement creative methods of financing multifamily rental housing.
- Review opportunities for preservation of federally financed housing, and work with HUD on restructuring of multifamily properties when appropriate.
- Find ways aimed at lowering the cost of housing including The Plan Book and The Governor's House Program.
- Develop programs that meet the needs of populations that are not currently being served.
- Promote the use of the funds within the Housing Revolving Loan Account (HRLA).
- Use Internet web page to provide updated information to persons interested in Board activities and programs.

Housing Assistance Bureau:

The Housing Assistance Bureau consists of three programs; the U.S. Department of Housing and Urban Development (HUD) HOME Investment Partnerships (HOME) program; the HUD Project Based Section 8 Housing Contract Administration (PBS8CA) program; and the HUD Tenant Based Section 8 Housing Choice Vouchers and Moderate Rehabilitation programs Contract Administration (TBS8CA).

HOME Investment Partnerships Program (HOME):

HOME provides grant funds to eligible local government entities and Community Housing Development Organizations for assistance in financing new construction or rehabilitation of individual homes or rental units, tenant based rental assistance, and other eligible activities. Grants are awarded through a competitive process once each year. HOME also includes the president's new American Dream Downpayment Initiative (ADDI) homeownership program. HOME staff also coordinate completion of the Montana Consolidated Plan, a five year planning document, with annual updates, required by the HUD in order to receive federal funds for many state programs.

The HOME program is funded in HB 2 by an annual categorical federal grant from HUD (100% federal funds). Grant funds are distributed using a competitive process to successful local governments and Community Housing Development Organizations (CHDOs) with an allowed amount being held back at the state level to administer the program.

HOME Program Goals & Objectives / Performance Indicators:

- Continue restructuring and streamlining HOME Program grant application and administration policies and procedures to expand program accessibility for Montana's cities, towns, counties, and Community Housing Development Organizations (CHDOs).
- Continuously improve HOME project screening, technical assistance efforts, and project monitoring to ensure that high quality, long lasting affordable housing investments are made in Montana.
- Continue to provide technical assistance to rural portions of the state by HOME Program personnel and through technical assistance contracts.
- Continue cooperation with other affordable housing programs in the state to ensure the efficient use of scarce resources. Other affordable housing programs include the programs of the Montana Board of Housing, USDA-Rural Development, the Montana Homeownership Network and Montana Home Choice Coalition.

Consolidated Plan:

- Continue to simplify and streamline annual updates facilitating continued federal participation and enhancing usability of the plan for the average citizen.

HOME Program Performance Indicators:

Applications Reviewed	Actual FY 2003 #	Actual FY 2003 $$	Actual FY 2004 #	Actual FY 2004 $$	Estimated FY 2005 #	Estimated FY 2005 $$	Estimated FY 2006 #	Estimated FY 2006 $$	Estimated FY 2007 #	Estimated FY 2007 $$
Homebuyer Assistance	4	$ 1,608,335	4	$ 1,531,543	5	$ 1,766,000	5	$ 1,854,000	5	$ 1,947,000
Homeowner Rehabilitation	1	$ 173,300	2	$ 869,656	2	$ 604,000	2	$ 634,000	2	$ 666,000
New Construction - Rental	2	$ 770,276	5	$ 1,855,679	3	$ 1,030,000	3	$ 1,082,000	3	$ 1,136,000
New Construction - Single Family	1	$ 193,500	2	$ 943,300	1	$ 400,000	1	$ 420,000	1	$ 441,000
Acquistion Rehabilitation - Rental	2	$ 1,000,000	3	$ 1,099,093	4	$ 1,448,000	4	$ 1,524,000	4	$ 1,587,000
Tenant Based Rental Assistance	1	$ 64,724	0	$ -	1	$ 125,000	1	$ 130,000	1	$ 150,000
Totals:	11	$ 3,810,135	16	$ 6,299,271	16	$ 5,373,000	16	$ 5,644,000	16	$ 5,927,000
Grants Awarded										
Homebuyer Assistance	4	$ 1,608,335	3	$ 1,331,543	3	$ 1,424,000	3	$ 1,424,000	3	$ 1,424,000
Homeowner Rehabilitation	1	$ 173,300	2	$ 869,656	1	$ 475,000	1	$ 475,000	1	$ 475,000
New Construction - Rental	2	$ 770,276	4	$ 1,605,679	2	$ 863,000	2	$ 863,000	2	$ 863,000
New Construction - Single Family	1	$ 193,500	1	$ 443,300	1	$ 216,000	1	$ 216,000	1	$ 216,000
Acquistion Rehabilitation - Rental	2	$ 1,000,000	2	$ 837,093	3	$ 1,222,000	3	$ 1,222,000	3	$ 1,222,000
Tenant Based Rental Assistance	1	$ 64,724	0	$ -	1	$ 100,000	1	$ 100,000	1	$ 100,000
Totals:	11	$ 3,810,135	12	$ 5,087,271	11	$ 4,300,000	11	$ 4,300,000	11	$ 4,300,000

HUD Section 8 Housing:

Project Based Section 8 Contract Administration (PBS8CA):

The PBS8CA Program is the HUD contract administrator for low-income rental properties HUD subsidizes throughout the state. The program provides rental assistance to projects at fixed locations instead of the tenants. Landlords perform administrative tasks at the local level. The agency performs annual property reviews, oversees property management, and makes rent subsidy payments to owners. The agency earns fees from HUD under a performance-based contract for the tasks performed. The Project Based Program renews rent contracts to project owners as they expire. Contract Managers prepare special damage claims, annual rent increases, respond to emergencies, check compliance for fair housing and waiting lists, on-site management reviews, follow-up to physical inspections, review of management decisions, and budget assistance to local property owners. The program provides 4,321 units of rental housing in 101 projects, for low income and elderly families in the state.

Tenant Based Section 8 Contract Administration (TBS8CA):

TBS8CA provides over 4,100 rent assisted units for very low income families (including elderly and disabled) to ensure they have decent, safe, and sanitary housing, using the HUD Section 8 Housing Choice Vouchers and Moderate Rehabilitation programs. The program operates on a first come, first serve basis statewide, through a network of field agencies the department contracts with for administration of local operations in the program. Leases are entered on the open rental market between tenants and private landlords. The program makes a subsidy payment to the property owner on behalf of the tenant. Payments are based on applicable unit rent limits and tenants generally pay 30% of their income towards rent and utilities.

Both Section 8 Housing programs are funded by two enterprise funds with revenues derived under HUD performance based Annual Contribution Contracts.

Section 8 Housing Goals & Objectives:

- Continue to provide and improve high quality Section 8 Housing Program services using contracted local field agencies to provide local contact for landlords and tenants enrolled in MDOC Section 8 Housing programs.
- Expand comprehensive centralized field agent training sessions to ensure field agent competency in all matters related to Section 8 Programs, and address problems associated with service delivery. Provide specialized training in areas identified as being high need for field agents and staff.
- Expand field review of local field agent operations to better monitor performance and to provide additional on-site training for field agents related to programmatic requirements, including inspections of rental units occupied by Section 8 tenants.
- Continue to support the Family Self Sufficiency Program to make FSS services available to clients on a full statewide basis, enabling more low-income clients to become independent of government assistance.
- Continue and expand contract administration of Section 8 project based contracts currently administered by HUD.
- Expand the provision of housing opportunities for low income Montanans by applying for additional assistance as it becomes available from federal sources.
- Expand the availability of low income Montanans to enter homeownership using the special provisions of the Housing Choice Voucher Homeownership program.

Board of Housing HB 576 Program Description:

The Montana Housing Act of 1975 created the Montana Board of Housing. The Board is an agency of the State and operates within the Department of Commerce for administrative purposes. Under the Housing Act the Board does not receive appropriations from the State's general fund and is completely self-supporting. Substantially all of the funds for the Board's operations and programs are provided by the private sector through the sale of tax-exempt bonds. The powers of the Board are vested in a seven member Board, appointed by the Governor, subject to the confirmation of the State Senate. The Board provides policy direction to the agency staff, authorizes bond issues, approves development financing and evaluates Board Housing Programs. These programs include the Single Family Program, Recycled Single Family Program, Multifamily Loan Programs, Low Income Housing Tax Credit Program, Housing Revolving Loan Fund and the Reverse Annuity Mortgage (RAM) Program.

The Board of Housing is funded by four enterprise funds (accounting entities 06030, 06031, 06078, and 06079) with revenues derived from an administrative charge applied to projects and mortgages financed. There are no direct appropriations provided in HB 2; the Board is completely self-supporting.

The Board of Housing is primarily mandated in Title 2, Chapter 15; and Title 90, Chapter 1, and Chapter 6, MCA.

Customers include households that qualify for the Board's programs to either rent or buy their own home. The Board partners with brokers, Realtors, banks, real estate lenders, builders, developers, contractors, non-profit housing providers and other governmental entities. Working together with its partners, the Board provides programs that allow a household to rent an apartment or house at an affordable rent. It allows a qualifying household to obtain a lower rate mortgage that will allow them to be able to afford a home that meets their household needs. It also allows qualifying senior households the opportunity to access the equity in their homes to help them afford to stay in their house through a reverse mortgage.

There has not been any significant program, service, or customer base change since the last session.

Board of Housing HB 576 Revenues, Expenses, and Fund Equity:

Revenue Description:

Single Family Charges:

According to state statute and, in some cases, the Internal Revenue Code, the Board is allowed to earn the amounts that are presented on the "Report on Internal Service and Enterprise Funds". The Board earns the bulk of its income from the spread between the interest yield on the Single Family Mortgage loans and the yield on the bonds. The Board is allowed to earn 1 1/2% on Pre 1980 Single Family Programs and 1 1/8% on the Post 1980 Single Family Programs.

Financial institutions that originate Single Family loans for the Board may charge two points, which they keep or originate loans with no points, at a slightly higher rate and have the loans purchased at 102%. Approximately 1% of the loans have 2 points charged. According to tax law, origination points must be included in the amount that the Board can earn. Operating expenses and servicing fees must be paid from the 1 1/8% that Board is allowed to earn. Servicing fees are .375% of the mortgage principal balance. The Board does not always receive the full 1 1/8% or 1 1/2% spread. The spreads for the last several bond issues were as follows:

* 1995B1 - .8799%
* 1995B2 - .8167%
* 1996A - 1.125%
* 1997A1 - 1.39063%
* 1997A2 - 1.08842%
* 1998A - 1.10078%
* 1998B - 1.04678%
* 1999A - 1.11985%
* 2000A - 1.10302%
* 2000B – 1.11709%
* 2001A - 1.11898%
* 2002A - 1.12251%
* 2002B - 1.09666%
* 2003A1 - 1.21126%

* 2003A2 - .07883%
* 2003B1 - 1.45392%
* 2003B2 - .51062%
* 2003C - .83833%
* 2004A - .82319%
* 2004B - .49576%

*Operating expenses and servicer fees further reduce the amount of these earnings.
The 1 1/8% or 1 1/2% that the Board can earn is based on certain assumptions at the time the bond issue is structured. One of the assumptions is that the loans will prepay at 100% of the historical FHA prepayment rate. If the loans actually prepay faster, the Board will not earn the initial spread that was calculated. The Board only earns this spread if the loans are held for the amount of time that is originally estimated. If the loans prepay early, the money is invested and then is used to redeem bonds. When the mortgages pay off, the Board has lost the ability to earn the spread between the mortgage yield and bond yield. Historically, prepayments on the majority of the loans have been over 100%, and we expect this trend to continue.

The Board also charges a cancellation fee of 1/2 of 1% of the loan amount reserved. Approximately 5% of loans reserved are canceled. This amount is included in the spread that the Board can earn. These fees are capitalized and are amortized as income over the life of the loans, as required by generally accepted accounting principles. Extension fees and late fees are also, occasionally, charged. The majority of these fees are capitalized and amortized over the life of the loans. The extension fees are 1/4 of 1% of the loan amount and the late fees are 1/2 of 1% of the loan amount. The amortization of these fees results in an average of approximately $250,000 of income per year. These fees are deposited with the trustees and are used to originate new mortgages.

Multifamily Charges:

Multifamily Programs can earn 1 1/2% spread between the mortgage yield and the bond yield. On the last several issues, the Board did not receive the full 1 1/2% spread. The spreads for the last four bond issues are as follows:

* 1992A - 1.0677%
* 1996A - .826%
* 1998A - .28156572%
* 1999A - 1.013963%

(Servicing fees and operating expenses further reduce the amount of this spread.)

We have currently had one loan payoff and one loan looking at a payoff. It is always a possibility that loans will make prepayments but until that happens it is hard to predict this scenario. If these loans prepay, bonds will be redeemed with the prepayments, and the Board will no longer earn any spread on these loans. In the 1992A bond issue, the Board is currently using excess revenues to purchase loans at interest rates that are lower than the bond yield. This further reduces the amount of earnings in the Multifamily Program. Under the Multifamily Program, the board can charge a reservation fee, on new loans, of up to 1% of the principal balance. Normally, the Board charges less than this amount.

Low Income Housing Tax Credit Charges:

The Board receives $2.075 million dollars of tax credit allocation, annually. The Board charges 4 1/2% of the amount of tax credit reserved. In the next biennium, reservation fee income is estimated to be approximately $93,375 per year. The Board is also required to monitor the projects that receive tax credits to determine if the projects are in compliance with tax credit regulations. The Board charges $25 per unit for compliance fees. The Board has approximately 4,000 units. Approximately $100,000, annually, will be received during the biennium. Tax credit fees are charged to cover the operating expenses of the program.

Housing Revolving Loan Account Charges:

The 1999 Legislature established this fund to provide loans to projects providing affordable housing in Montana. Although the fund was established in 1999 it was not funded. The 2001 legislature added funding through a transfer of Section 8 reserve funds and an allocation of Temporary Assistance to Needy Families (TANF). The TANF funding is currently used to finance down payment and closing cost loans for homebuyers. The other funding is available for other types of housing loans that will typically need that last small piece of financing to make them feasible. The interest that will be charged on HRLA loan will range from 2% - 6%.

Reverse Annuity Mortgage Loans (RAM) Charges:

Under the RAM program, elderly homeowners can receive monthly payments, for 10 years, to assist them with their living expenses. The loans accrue interest at 5%. The principal and interest is not due until the borrower dies or sells their home. It is difficult to determine how much of the interest and principal will actually be received on these loans or when it will be received. These loans are not guaranteed or insured.

Increase in Mortgage Income:

The Board's mortgage income steadily increased from FY1999 to 2002 and leveled off in FY2003 because of significant prepayments. Part of the reason is because there are four Single Family bond issues (1995B, 1997A, 2003A & 2003B) that were structured to use loan prepayments and excess revenues to originate loans rather than to call bonds or pay debt service. These bond series have 40 year bonds rather than the typical 30 year bonds. These series do not have principal payments on the bonds for 10 years, only interest is due. During the first 10 years of each bond issues, mortgages will be originated with prepayments and the excess revenues. The 1995B-1 will begin paying principle in June 2006 however the Board is researching avenues to extend this requirement.

The Board has continued to issue bonds each year to originate new mortgages. During fiscal years 2002, 2003 & 2004, the Board issued bonds in the amounts of $89,180,000, $143,965,000 & $161,800,000, respectively. We anticipate mortgage revenue will continue to increase during the next biennium as the Board continues to originate loans with prepayments, excess revenues and bond proceeds.

Investment Income:

In fiscal year 2003, the Board earned approximately $11,955,945 on its investments. During the latter part of fiscal year 2000, the Board entered into a repurchase agreement on its Single Family II Indenture. The repurchase agreement is at 6.43% for 30 years and will help us predict investment income in the upcoming years.

NOTE: For Post 1980 Single Family issues and Post 1986 Multifamily issues, investment earnings cannot exceed the yield on the bonds.

Increase in Fair Market Value:

The increase in fair value is a requirement of GASB 31. It requires that all investments be valued at fair value. During 1998, the first year that GASB 31 was implemented, the Board recorded a gain of approximately $2.8 million. In FY2003 the amount was approximately $2.3 million. We anticipate an approximate decrease of $2.3 million in FY2004. The Board does not intend to sell the long-term investments. If they are sold, we will receive the value of the investment on the day of the sale. This amount could be substantially different from the market value at June 30th. We did not estimate any increases or decreases in the fair value for fiscal year 2005, 2006 or 2007. The market fluctuations are significant and it is impossible to estimate the value of the investments at any given time.

Board of Housing revenues (accounting entities 06030, 06031, 06078, and 06079) are primarily recorded in the following SABHRS revenue codes:

	FY 2004	%
512033	$ 312.38	0.001%
526062	$ 214,711.93	0.498%
530014	$ (2,230,747.82)	-5.179%
530025	$ 16,833.03	0.039%
538006	$ -	0.000%
538025	$ 18,607.70	0.043%
538040	$ 39,367.48	0.091%
538041	$ 36,135,142.23	83.888%
538042	$ 8,379,696.53	19.454%
538046	$ 4,924.53	0.011%
538402	$ -	0.000%
581141	$ 3,400.00	0.008%
581601	$ 241,675.00	0.561%
593401	$ 12,943.00	0.030%
599001	$ 238,507.85	0.554%
Totals:	$ 43,075,373.84	100.000%

Expense Description:

Operations & personal services expense:

Operations for the next biennium are anticipated to be approximately $5.6 million for FY 2006 and $6 million for FY 2007. The operating expenses include the following:

Servicer fees:	$2.8 million (FY 2006)	$3 million (FY 2007)
Operating expenses & personal services:	$2.8 million (FY 2006)	$3 million (FY 2007)

The operations of the Board include purchasing mortgage loans, receiving repayments and prepayments, investing funds, issuing and redeeming bonds. During fiscal year 2004, the Board purchased $153,813,245 in mortgages and received $180 million in mortgage repayments, prepayments and interest. The Board paid interest and principal on bonds of $193,454,965 and issued new bond proceeds in the amount of $161,800,000. This was done with a staff of 20 FTE.

Miscellaneous Operating expense:

Miscellaneous operating includes the interest expense on bonds. It also includes the periodic amortization of the cost of issuance expense. The costs associated with issuing the bonds are expensed over the life of the bonds, as required by generally accepted accounting principles.

During fiscal years 2002, 2003 & 2004, the Board issued bonds in the amounts of $89,180,000, $143,965,000 & $161,800,000, respectively. The issuance of new debt in FY 2004 has approximated maturities and redemptions on bonds. The Board anticipates an increase in debt service during the next biennium.

The major cost drivers within the Board of Housing are personal services, operating expenses, expenditures related to the periodic replacement of computer equipment. Additionally, over $38.685 million was disbursed from accounting entity 06030 in FY 2004 via an administrative appropriation for debt service requirements related to the Board's bonding activity.

FY 2004 base year expenditures for accounting entities 06030, 06031, 06078, and 06079 are as follows:

	FY 2004	%
FTE	20.00	
Personal Services	$ 828,467.29	2.016%
Operating Expenses	$ 3,662,585.30	8.915%
Debt Service	$ 36,594,057.01	89.069%
Totals:	$ 41,085,109.60	100.000%

There is little uncertainty in forecasting major cost drivers and for the purposes of this analysis it is assumed the Board's workload and customer level will remain constant.

Non-typical and one time only expenses, if any, are subtracted from proposed budgets. The Board of Housing is authorized 20.00 FTE and personal services expenditures include Board Member Per Diem.

Working Capital Discussion:

Collection of mortgage payments & purchase of loans:

Each month the Board receives funds from the financial institutions that service the Board's Single Family and Multifamily loans. The funds include the amount of principal, interest, less servicing fees (.375%, .125% and .10% of the principal balance) that are due on the Board's loans. The Board's trustees collect the money. Twice monthly, the Board purchases loans from new bond proceeds, prepayments or other revenues.

The Board receives tax credit reservations fees when the tax credits are approved. These fees are deposited with the state treasurer and are used to cover expenses of the program. Reservations fees on the Single Family and Multifamily Programs are deposited with the trustees when the approved loans are reserved. They are deposited in the program acquisition account and are used to originate new mortgages.

Payment of Bond P & I:

Principal and interest, on the Multifamily and Single Family Bond issues, is due on each February 1, April 1, June 1, August 1, October 1 and December 1. During fiscal year 2004, the Board paid $193,454,965 in principal and interest on the bonds.

This number includes scheduled principal and interest payments as well as bond redemptions from prepayments and excess reserves and other revenues. The amount of debt service paid will vary depending on the amount of prepayments received. Under the Single Family I and II Indentures, except for those series that were structured for recycling, each semiannual debt service date, the Board determines how many prepayments have been received. The Board uses the loan prepayments to redeem bonds in an amount equal to the prepayments received. The income cannot be used for any other purpose. Annually, the Board reviews any other revenues and excess reserves in the Single Family programs and those amounts are also used to redeem bonds. The Multifamily Program has received prepayments on two loans and bonds will be redeemed. In the future, there may be prepayments, and bonds will also be redeemed.

Investment of funds;

In the Single Family I and II Indentures, the Board invests the majority of prepayments and repayments of loans in repurchase agreements. The interest coming due on the agreements also coincides with a debt service date. In three of the series under the Single Family II Indenture, prepayments and any other revenues are used to originate loans that could not otherwise be originated under the tax laws. These two series do not have principal due on the bonds for the first 10 years of the bond issue. These funds are normally invested based on the anticipated loan purchase dates. Under the Single Family I Indenture, a portion of prepayments and repayments are used to originate loans that do not meet the tax laws. These funds are currently invested in a repurchase agreement and withdrawn, as the funds are needed for purchases.

The deposit of the initial bond proceeds, used for purchasing loans, is normally invested in a two-year, fixed rate, repurchase agreement. All debt service reserve funds and mortgage reserve funds that must be held as security for the bondholders are invested in long-term securities, repurchase agreements or guaranteed investment contracts. Under the Multifamily Program, the funds are invested to the next debt service date or to a loan purchase date.

Other Mortgage Purchases:
The Board purchases Reverse Annuity Mortgage (RAM). The RAM loans are not repaid until the borrower dies or sells their home. These amounts are assets of the Board and the interest is accrued monthly, but we may not receive the principal and interest repayments for many years.

The Board also purchases out of the Housing Revolving Loan Program. These loans can be due on sale or amortizing. These amounts are assets of the Board and the interest is accrued monthly.

Fund Equity and Reserved Fund Balance:

Net Assets/Restricted Net Assets;

As stated in the Board's financial statements, Note 1, Fund Accounting: Net Assets – Restricted for Bondholders represent bond program funds that are required to be used for program purposes as prescribed by individual bond indentures. The following are restrictions on the Restricted Net Assets: Special trust funds and accounts within the indenture are pledged as collateral for the bonds under the individual program indentures; Reserve requirements on cash and investments; Mortgage loans receivable are also pledged as security for holders of the bonds; Certain indentures require asset-liability coverage ratios be met as well as cash flow certificates be furnished for any significant change anticipated in the financial structure of an indenture.

The Trust Indentures entered into by the Board requires all mortgages, and all moneys and investments within the indentures are legally restricted to uses provided for in the indentures and fund balance associated with the indentures is legally required to be reserved for those uses.

In addition to the legal requirements mentioned above, the Board commits funds to various projects and programs throughout the year. The Board has set aside over $200 million of first mortgage funds for special programs, and originates approximately $20 million per year of new loans under this program (targeting income levels of approximately $20,000). As of the end of FY 2004, the Board had $37,946,710 in outstanding Recycled Mortgage Program commitments.

In the Multifamily area, the Board commits funds to projects around the state, with the intent to pool mortgages and issue bonds to fund mortgages and reimburse the Board where it has advanced funds on some of the projects. The Board has 29 active first mortgages with initial principle balances of $23,969,458. There are also 8 second position loans funded from a AHP grant awarded to the Board by the Federal Home Loan Bank of Seattle. The Board has 2 loans prepay and 2 loans foreclosed on.

In order to operate a more efficient Multifamily program, the Board was awarded a rating of A2 for its General Obligation on April 8, 1997. In order to obtain the A2 rating, the Board pledged that it will use any and all of the moneys, assets or revenues of the Board to back bonds issued using the General Obligation rating. All of the Board's bond issues, with the exception of the Single Family III through X (issued from 1988-1992) hold the Board's General Obligation pledge.

The fund balance within the Housing Trust Fund is legally required to be reserved for security to the single family programs by Resolution 92-0821-S1, the Fifth Supplemental Trust Indenture for its Single Family II Indenture and by Resolution 93-0624-S2.

The Board funds its RAM programs from the Housing Trust fund, because these are programs for which the Board can not issue bonds. As of the end of FY 2004, the Board has RAM loans with an outstanding principal balance and interest of $904,177. Outstanding commitments from the Housing Trust Fund as of FY 2004 were $1,441,763 for RAM.

The Board's budget monies (those projected to be needed for the fiscal year's operations) are drawn down from the indentures at the beginning of the fiscal year. These funds are legally pledged to the trust indentures from which they were drawn and any associated fund balance is reserved for the program from which the budgeted funds were withdrawn.

Management Objectives Regarding Fund Balance;

The major component of the Board's Fund Balance (Retained Earnings) is its single-family program. The Board has been recycling repayments and prepayments of mortgages for several years. The Board has committed these funds to special programs, at rates that are in many cases below the average coupon on the bonds. The average income on the special programs is less than $24,000, whereas the average income on the Board's regular bond programs is about $35,000. The Board intends to continue these special programs as they serve Montana citizens the Board would not otherwise be able to serve.

Net income over and above bond debt service, operating costs, and servicing fees, is used to write down the rates on special programs or to fund programs such as the RAM Program for elderly. These programs cannot be funded from direct bond proceeds, as there is no repayment guarantee. In the Multifamily area, the Board intends to continue to leverage its multifamily funds into new multifamily loans through the revolving pool so that loans can be completed in a timely and efficient manner.

The Board is reviewed at the time of each bond issue by two rating agencies: Standard & Poor's, and Moody's Investor Services. In order to meet the cash flow tests, the Board must have sufficient assets, earnings, and liquidity, to meet all bond interest and principal expenses, as well as pay operating expenses. The Board just received an Aa2 from Moody's and a AA+ from Standard & Poor's on its largest indenture. The Board's rating reflects the rates the Board gets on its bonds, which is reflected in the mortgage rates passed on to first time home buyers in Montana. In 1990, the Board purchased 1 in 10 of the mortgages. In 2002, the Board purchased 1 in 4 of these mortgages. The Board's continuous funding (which was a goal of current management set in 1994) and steady, low interest rates, as well as the Board's special programs, have contributed to this increase. In addition the increase in housing costs in Montana has made the need for lower interest rate financing even more profound.

Rate Explanation:

The Board recovers its costs from charging application and compliance fees for the Low Income Tax Credit Program and from charging a spread on our loan programs. The Board draws funds for its budget from the amounts available within the Indentures. The amount of the approved budget, less any cash on hand, is withdrawn from the Indenture and is allocated among the various Indentures. Any income the Board earns is used to fund special programs that meet the needs of Montana families that are not being met by our regular programs. These funds are pledged to the bondholders.

Section 8 Housing HB 576 Program Description:

Project Based Section 8 Contract Administration (PBS8CA):

The PBS8CA Program is the HUD contract administrator for low-income rental properties HUD subsidizes throughout the state. The program provides rental assistance to projects at fixed locations instead of the tenants. Landlords perform administrative tasks at the local level. The agency performs annual property reviews, oversees property management, and makes rent subsidy payments to owners. The agency earns fees from HUD under a performance-based contract for the tasks performed. The Project Based Program renews rent contracts to project owners as they expire. Contract Managers prepare special damage claims, annual rent increases, respond to emergencies, check compliance for fair housing and waiting lists, on-site management reviews, follow-up to physical inspections, review of management decisions, and budget assistance to local property owners. The program provides 4,321 units of rental housing in 101 projects, for low income and elderly families in the state.

The Project Based Section 8 program is funded by enterprise accounting entity 06074 with revenues derived from a performance based Annual Contribution Contract with HUD. There are no direct appropriations provided in HB 2; the Project Based Section 8 program is completely self-supporting.

Tenant Based Section 8 Contract Administration (TBS8CA):

TBS8CA provides over 4,100 rent assisted units for very low income families (including elderly and disabled) to ensure they have decent, safe, and sanitary housing, using the HUD Section 8 Housing Choice Vouchers and Moderate Rehabilitation programs. The program operates on a first come, first serve basis statewide, through a network of field agencies the department contracts with for administration of local operations in the program. Leases are entered on the open rental market between tenants and private landlords. The program makes a subsidy payment to the property owner on behalf of the tenant. Payments are based on applicable unit rent limits and tenants generally pay 30% of their income towards rent and utilities.

The Tenant Based Section 8 program is funded by enterprise accounting entity 06075 with revenues derived from a performance based Annual Contribution Contract with HUD. There are no direct appropriations provided in HB 2; the Tenant Based Section 8 program is completely self-supporting.

The Section 8 Housing programs are primarily mandated in 24 CFR Parts 5, 8, 35, 792, 813, 880, 882, 883, 887, 888, 891, 903, 982, 984 and 985 of the Code of Federal Regulations Section 8 Housing authorization and the Governor's Executive Order 27-81 Authorization of Section 8 Housing.

Customers include the 8,421 Montana families that hold a Section 8 Voucher or live in a Section 8 Project Based unit. The majority of these families include, the disabled or the elderly. Customers also include the 2,500 landlords that accept vouchers or own project based apartments.

There has not been any significant program, service, or customer base change since the last session; however the federal government has proposed reductions in the levels of funding for the Housing Choice Vouchers program. At this time the Department has appealed the proposed reductions and is waiting HUD restoration of funding. If funding is not restored, 250-400 families across Montana will lose Section 8 Housing Choice Voucher assistance in October, and could be forced into homelessness. It is possible the scenario could happen in FY2005 also.

Section 8 Housing HB 576 Revenues, Expenses, and Fund Equity:

Revenue Description:

Both Section 8 Housing programs are funded entirely by enterprise funds; Project Based Section 8 with accounting entity 06074; and Tenant Based Section 8 with accounting entity 06075. There are no direct appropriations provided in HB 2. Both funds revenues are derived from performance based Annual Contribution Contracts with HUD, and both programs are completely self-supporting.

Project Based Section 8 Housing revenues (accounting entity 06074) are primarily recorded in the following SABHRS revenue codes:

	FY 2004	%
512033	$ 444.88	0.003%
530025	$ 5,664.89	0.035%
538006	$ 3,013.32	0.019%
594109	$ 815,918.00	5.090%
594111	$ 15,204,187.56	94.853%
Totals:	$ 16,029,228.65	100.000%

Tenant Based Section 8 Housing revenues (accounting entity 06075) are primarily recorded in the following SABHRS revenue codes:

	FY 2004	%
512033	$ 320.44	0.002%
530025	$ 26,975.34	0.147%
538006	$ 8,270.57	0.045%
594112	$ 16,191,459.36	88.047%
594113	$ 34,091.46	0.185%
594116	$ 132,408.11	0.720%
594117	$ 143,915.55	0.783%
594118	$ 150,558.00	0.819%
594119	$ 238,104.79	1.295%
594120	$ 58,183.08	0.316%
594121	$ 106,472.12	0.579%
594122	$ 102,920.46	0.560%
594124	$ 154,670.49	0.841%
594125	$ 210,246.00	1.143%
594126	$ 301,732.20	1.641%
594127	$ 253,152.96	1.377%
594128	$ 276,104.92	1.501%
Totals:	$ 18,389,585.85	100.000%

Expense Description:

Major cost drivers for the Project Based Section 8 program, accounting entity 06074, can best be represented in the following table:

	FY 2004	%
FTE	7.00	
Personal Services	$ 311,744.83	1.987%
Operating Expenses	$ 187,470.26	1.195%
Benefits & Claims	$ 15,187,065.56	96.818%
Totals:	$ 15,686,280.65	100.000%

Major cost drivers for the Tenant Based Section 8 program, accounting entity 06075, can best be represented in the following table:

	FY 2004	%
FTE	12.50	
Personal Services	$ 528,931.67	2.726%
Operating Expenses	$ 364,491.92	1.879%
Benefits & Claims	$ 18,506,428.85	95.395%
Totals:	$ 19,399,852.44	100.000%

Working Capital Discussion:

Revenues are generated in the Project Based Section 8 Contract Administration under a HUD performance based contract using 17 Incentive Based Performance Standards which are calculated by HUD monthly, quarterly, and annually. Revenues generated are required to be used for contract administration. Rental Assistance payments are made based on Contracts negotiated by the PBS8CA staff and tenant income data, and are paid and reimbursed monthly by HUD, based on actual program benefits paid to owners.

Revenues for the TBS8CA are generated at the rate of $45.79 per unit for each rental unit under lease each month, effective January 1, 2004. Revenues are used to pay for contract administration of the program. HUD regulations do not allow the PHA to earn new reserve balances after 2003, and old reserve balances are committed to paying program administration costs only and HUD may require their use to pay Rental subsidies in the future. Retained earnings are used to supplement interest earnings and older operating reserves in paying for contract administration costs that exceed current revenues. Rental subsidies are paid and reimbursed by HUD, up to a set amount per unit (new in FY 2004). The PHA is not allowed to retain any funds for other than the payment of rents under the program.

Fund Equity and Reserved Fund Balance:

Fund equity remaining in the accounts is reserved for use on the Section 8 Housing programs. This was enacted in HUD PIH Notices 2003-23 and 2004-07, and is also found in 24 CFR 982.152(b), Also see working capital discussion above.

Rate Explanation:

Both funds revenues are derived from competitively awarded performance based Annual Contribution Contracts with HUD, and both programs are completely self-supporting.

There is little uncertainty in forecasting major cost drivers and for the purposes of this analysis it is assumed the Section 8 programs workload and customer level will remain constant.

The federal government has proposed reductions in the levels of funding for the Housing Choice Vouchers tenant based program. At this time the Department has appealed the proposed reductions. Should the reductions be upheld, Housing Assistance Payments for tenants must be reduced, either by reducing the benefit provided each tenant family, or by removing currently assisted families from the Housing Choice Vouchers Program. Administrative requirements and workload remain unchanged. The U.S. Department of Housing and Urban Development pays the Housing Assistance Bureau on a performance based contract, where administration is paid at the rate of $45.79 per unit under lease at the beginning of each month, and will provide $334.88 per unit to cover rent costs for participating tenants. The $334.88 figure has been appealed, due to declining income of tenant families, reductions in TANF (counted as income on this program), excessive utility rate increases, and increases in the new HUD fair marker rents, which control minimum and maximum subsidy levels for the program. This shorts rents by about $21 per month per tenant, around $920,000 per year.

The administration side of the program does not currently make enough from HUD to fully fund administrative operations, so retained earnings, and interest on them are used to make up the difference between needed revenues and administration expenses for the program. It is anticipated that the retained earnings will continue to fund the program indefinitely, unless there are more negative changes upcoming from HUD. The retained earnings are limited to use for operation of the program by federal code.

The Project Based Section 8 Contract Administration is funded through a performance based contract with HUD, based on a 5 year renewable RFP. We are entering the fifth year, and expect HUD to extend our contract in future years, as we have obtained an outstanding review scoring in most years we have administered the program. Administrative costs are paid as a fixed percent of the HUD fair market rent, currently 2%, with a provision for another 1% awarded for superior performance, or 1% removed for failure to perform. The amounts received are based in 17 different Incentive Based Performance Standards, each of which is evaluated by HUD. Retained earnings are to be used for operations of this program. Funding for rents is paid by HUD, based on actual contracts negotiated between the department and the 107 individual owners of the projects, set up on a procedure dictated by HUD.

Non-typical and one time only expenses, if any, are subtracted from proposed budgets. The Project Based Section 8 program is authorized 7.00 FTE and the Tenant Based Section 8 program is authorized 12.50 FTE; for a total 19.50 FTE.

Board of Investments:

The Board of Investments invest all state funds in the Unified Investment Program, established under Article VIII, Section 13 of the Montana Constitution. Local governments may invest in the Short-Term Investment Pool. The six investment pools listed below and several individual portfolios are managed.

1. Retirement Funds Bond Pool
2. Trust Funds Bond Pool
3. Short Term Investment Pool
4. Montana Domestic Stock Pool
5. Montana International Equity Pool
6. Montana Private Equity Pool

Annual audited financial statements are prepared for each investment pool. Investments not managed in pools are included in an "all other funds" financial statement. The In-State Investment Program consists of Montana residential mortgages and commercial loans. The Board also issues bonds and lends the proceeds to eligible government agencies for a variety of purposes.

In addition to our investment responsibilities, one of the main goals of the Board is to provide creative solutions to financial issues facing new and expanding businesses in the state of

Montana. To accomplish this goal, the Board administers a number of different loan programs that can be specifically tailored to meet an individual business's or local government's needs.

The Board of Investments is funded with both enterprise and internal service type proprietary funds, and no direct appropriations are provided in HB 2.

Board of Investment responsibilities are mandated primarily in Article VIII, Section 13 of the Montana Constitution, Title 2, Chapter 15, and Title 17, Chapters 5 and 6, MCA.

Unified Investment Program:

The Board of Investments manages the Unified Investment Program mandated by Article VIII, Section 13 of the Montana Constitution. Section 17-6-201, created the Board of Investments, and gave the Board sole authority to invest state funds. The Board also invests local government funds at their discretion. The Board currently manages an investment portfolio with a market value of $9.4 billion. The Board manages the portfolio under the "prudent expert principle."

To provide for diversification and reduced risk, the Board manages several investment pools in which funds of similar types are invested. The Legislative Auditor audits the Board annually. The Board consists of nine members appointed by the Governor.

In-State Investments:

Section 17-6-305, MCA authorizes the Board to invest up to 25 percent of the Permanent Coal Tax Trust Fund to assist Montana's economic development. The "In-State Investment Program" makes business loans from the Trust in participation with financial institutions. The Board lends Trust Fund monies to local governments to fund infrastructure that will serve job-creating businesses locating in the government's jurisdiction. The Board also lends low-interest monies funded from the Trust to value-added type businesses creating jobs. The 2003 Legislative Session created an Intermediary Relending Program also funded from the Trust, for the purpose of lending monies to local economic development organizations with revolving loan programs. Throughout Fiscal Year 2004, the Board also purchased Montana mortgages with pension funds as part of the In-State Investment Program.

INTERCAP Program:

The Board sells bonds and lends the proceeds to eligible governments for a variety of projects. Loan terms range from one to ten years, and short-term loans to finance cash flow deficits or bridge financing are also available. The INTERCAP and In-State Investment Programs were created in fiscal year 1984 as part of the "Build Montana" program.

Mission:

- To prudently invest all individual funds in the best interest of each fund by diversifying holdings, maximizing return, and minimizing risk.
- To prudently invest 25 percent of the Permanent Coal Tax Trust in Montana businesses by participating in loans with financial institutions under the In-State Investment Program.
- To make low cost financing available to eligible governmental units by issuing tax-exempt bonds and lending the proceeds to governments under the INTERCAP Program.

Goals and Objectives:

- Meet or exceed all investment benchmarks established by the Board for each asset class.
- Increase Permanent Coal Tax Trust investments in Montana business to at least 25 percent of the total Trust as authorized by law.
- Increase Infrastructure Loans from the Coal Tax Trust to the maximum $50.0 million authorized by law.
- Increase Value-Added Loans from the Coal Tax Trust to the maximum $50.0 million authorized by law.
- Increase Intermediary Relending Program loans from the Coal Tax Trust to the maximum $5.0 million authorized by law.
- Increase Bonds issued under the INTERCAP Program to $120.0 million as authorized by law.

HB 576 Program Description:

Unified Investment Program:

The Board of Investments manages the Unified Investment Program mandated by Article VIII, Section 13 of the Montana Constitution. Section 17-6-201, created the Board of Investments, and gave the Board sole authority to invest state funds. The Board also invests local government funds at their discretion. The Board currently manages an investment portfolio with a market value of approximately $9.4 billion. The Board manages the portfolio under the "prudent expert principle."

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The Board sells tax-exempt bonds and lends the proceeds to eligible governments for a variety of projects. Loan terms range from one to ten years, and short-term loans to finance cash flow deficits or bridge financing are also available. The INTERCAP and In-State Investment Programs were created in fiscal year 1984 as part of the "Build Montana" program.

The Board of Investments is funded by two proprietary fund types. Accounting entity 06014, an enterprise fund, funds the Intercap or Bond Programs. Accounting entity 06527, an internal service fund, funds the Investment Programs programs.

Board of Investment responsibilities are mandated primarily in Article VIII, Section 13 of the Montana Constitution, Title 2, Chapter 15, and Title 17, Chapters 5 and 6, MCA.

Board of Investments customers include: state agencies, the university system, local governments, financial institutions, and local economic development organizations.

There has been no significant change in the services provided by the Board of Investments from those provided in the last biennium, although the investment portfolio continues to grow in size.

HB 576 Revenues, Expenses, and Fund Equity:

Revenue Description:

Nearly all Bond Program revenues (accounting entity 06014, an enterprise fund) are generated by the difference between interest rates on bonds sold and the interest rate charged on loans to borrowers. Since these revenues are only received from the trustee on an annual basis, a 270 day fund balance is required to provide adequate funding for the Bond Program between draws. Remaining revenues are received monthly from the Boards contract with the Montana Facility Finance Authority.

Nearly all Investment Program revenues (accounting entity 06527, an internal service fund) are generated from charges to each account that the Board invests. The revenue objective of the Investment Program is to fairly assess the costs of operations while maintaining a reasonable and prudent 60 day working capital reserve.

The Board of Investments does not receive any direct appropriations.

FY 2004 base year funding, by fund type for the Investment Program, accounting entity 06527 is as follows:

	FY 2004	%
General Fund	$ 55,220.04	1.866%
State Special	$ 20,044.30	0.677%
Federal Special	$ 2,488.61	0.084%
Proprietary	$ 131,859.01	4.456%
Expendable Trust	$ 62,077.13	2.098%
Non Expendable Trust	$ 2,570,227.48	86.864%
Local Government	$ 91,050.09	3.077%
University	$ 22,472.59	0.759%
Debt Service	$ 3,328.75	0.112%
Misc. Reimbursement	$ 142.00	0.005%
Totals:	$ 2,958,910.00	100.000%

Customer expenditure codes are not available because many customers are outside of state government and therefore do not record their financial activity on SABHRS.

Bond Program revenues (accounting entity 06014) are primarily recorded in the following SABHRS revenue codes:

	FY 2004	%
525130	$ 7,938.53	0.353%
527054	$ 261.26	0.012%
530008	$ 279,872.54	12.428%
530010	$ 78,020.91	3.465%
530014	$ (234,793.97)	-10.426%
530021	$ 2,057.14	0.091%
530023	$ (12,920.50)	-0.574%
530025	$ 3,582.44	0.159%
530029	$ (33,176.35)	-1.473%
538043	$ 2,143,369.94	95.176%
538044	$ 17,784.59	0.790%
Totals:	$ 2,251,996.53	100.000%

Investment Program revenues (accounting entity 06527) are primarily recorded in the following SABHRS revenue codes:

	FY 2004	%
521055	$ 2,958,768.00	99.995%
522017	$ 142.00	0.005%
Totals:	$ 2,958,910.00	100.000%

Expense Description:

The major cost drivers within the Board of Investments are personal services, operating expenses and expenditures related to the periodic replacement of computer equipment. Additionally, over $2.537 million was disbursed from accounting entity 06014 in FY 2004 via a statutory appropriation for debt service requirements related to the state's bonding activity.
FY 2004 base year expenditures, for accounting entity 06014 are as follows:

	FY 2004	%
FTE	3.00	
Personal Services	$ 186,075.18	8.471%
Operating Expenses	$ 158,926.90	7.235%
Debt Service	$ 1,851,562.97	84.294%
Totals:	$ 2,196,565.05	100.000%

FY 2004 base year expenditures, for accounting entity 06527 are as follows:

	FY 2004	%
FTE	31.00	
Personal Services	$ 2,024,742.00	71.112%
Operating Expenses	$ 822,509.31	28.888%
Totals:	$ 2,847,251.31	100.000%

There is little uncertainty in forecasting major cost drivers and for the purposes of this analysis it is assumed the Division's workload and customer levels will remain constant, although investment portfolios will continue to grow in size.

Non-typical and one time only expenses, if any, are subtracted from proposed budgets. The Board of Investments is authorized 34.00 FTE (31.00 funded from accounting entity 06527, and 3.00 funded from accounting entity 06014) and personal services expenditures include Board Member Per Diem.

Working Capital Discussion:

Revenues for accounting entity 06014 are typically received on an annual basis, so a 270 day fund balance is required to provide adequate funding for the Bond Program between draws.

Revenues for accounting entity 06527 are assessed on a monthly basis; since collections lag by at least one month the Board must maintain a nominal working capital reserve to meet ongoing operational expenses.

Fund Equity and Reserved Fund Balance:

At the proposed rates, the Department projects a fiscal year end 2007 ending unreserved fund balance of approximately $338,691.

Rate Explanation:

The Board of Investments recovers its costs from the entities that use its services. Typically, this has been done by requesting a maximum level of expenditures similar to what occurs in HB 2 and setting the fee at that level. This process has worked very well since the passage of HB 576 and this methodology is continued in the 2007 biennium because it provides an easy comparison with historical financial activity.

Significant Present Law:

The only present law adjustment for accounting entity 06527 is for administrative costs; such as overtime, fixed costs, and rent.

New Proposals:

There are no new proposals for accounting entity 06527.

Montana Heritage Commission:

In 1997, the 55th Montana Legislature established the Montana Heritage Preservation and Development Commission to acquire and manage historic properties for the State of Montana. This legislation approved the purchase of nearly 250 buildings, 160 acres of land, hundreds of thousands of artifacts, and, by association, much of the legend and lore surrounding the old mining towns of Virginia City and Nevada City. These towns were the first properties to be managed by the Montana Heritage Commission (MHC). Historic Reeder's Alley in Helena was approved for acquisition, through a private donation, by the Montana Board of Land Commissioners on November 19, 2001.

MHC is responsible for the care of these historic properties, including improvements to building structure and stabilization, conservation of artifacts and protection of the historic integrity of properties and view shed. MHC manages a gift store, railroad, visitor center, open air museum, plus business leases for 25 concessionaires including, two theaters, three liquor leases, saloons, hotels, restaurants, tours, gold panning, an old-time photo gallery, and gift stores. MHC is also in the business of providing information and services for potential visitors to Virginia City, Nevada City and Reeder's Alley. MHC serves as a resource for professionals and public interested in research of Montana history, historic building preservation, archaeology, conservation of artifacts, and historic site management.

Montana Heritage Commission responsibilities are mandated primarily in Title 17, Chapter 7, and Title 22, Chapter 3, MCA.

Mission:

To acquire and manage, on behalf of the state, properties that possess outstanding historical value, display exceptional qualities worth preserving, are genuinely representative of the state's culture and history, and demonstrate the ability to become economically self-supporting.

Goals and Objectives:

The Montana Heritage Commission shall achieve this purpose by purchasing fee title interests in real and personal property and by managing those properties in a manner that protects the properties and encourages economic independence.

On average the MHC has increased on site earned revenue by double digits since 1997 and numerous grants have been awarded, the most recent of which being a $1.8 million grant from the National Park Service for building preservation.

Director's Office / Management Services Division:

The Director's Office/Management Services Division consists of three programs:

The Director's Office:

The Director's Office assists the department with executive, administrative, legal, and policy guidance. This office acts as the liaison among private business, local governments, administratively-attached boards, public and private interest groups, the legislature, Indian tribes, individuals, and the Governor's office in the effort to improve and stabilize the economic climate in Montana.

Management Services Division:

The Management Services Division provides internal support to all agency divisions, bureaus, and programs. Services provided by the Management Services Division include accounting, budgeting, fiscal management, contracting, purchasing, information technology, human resources, payroll, benefits, and training.

The Director's Office/Management Services Division responsibilities are mandated primarily in Title 2, Chapter 15 and Title 90, Chapter 1, MCA.

The Montana Council on Developmental Disabilities (MCDD):

In 2003, the 58th Montana Legislature transferred the Developmental Disabilities Planning and Advisory Council (DDPAC) from the Department of Public Health and Human Services to the Department of Commerce with the provision the State could contract with a nonprofit corporation for the purposes of carrying out the responsibilities delegated to the DDPAC. In January 2004 the Department entered into a contract with the Montana Council on Developmental Disabilities (MCDD) as a nonprofit corporation. The Department of Commerce remains the cognizant state agency with the Federal Department of Health and Human Services; disbursing (pass through) funds to the newly created nonprofit under the terms and conditions of the contract. The MCDD program is funded entirely in HB 2 with federal special revenue.

MCDD responsibilities are mandated primarily in Title 53, Chapter 20, MCA.

Mission:

To enhance the department's mission of economic and community development by effectively and efficiently assisting departmental staff, and setting the visionary direction in which the Department of Commerce does business.

Goals and Objectives:

In order to fulfill its mission the Director's Office/Management Services Division is committed to achieving the following goals and objectives:

Provide a quality internal organizational and support structure for the department's programs that recognizes the importance of satisfying customer needs while assuring the legislature, the public, and management that the department conforms to applicable laws and policies.

Analyze, with program managers, the statutory, administrative, and programmatic objectives of their programs in order to develop performance measures which maximize the benefits of the services provided to the citizens of Montana while minimizing the resources required to achieve those objectives.

Analyze, develop, and implement work processes within the department that support further program efficiency and effectiveness.

Empower staff to remedy problems at the earliest point.

Eliminate outdated and unnecessary rules and regulations that may impede customer service.

Advocate to management the development of systems, policies, and procedures that reduce the amount of paperwork necessary to meet customer needs.

HB 576 Program Description:

The Director's Office assists the department with executive, administrative, legal, and policy guidance. This office acts as the liaison among private business, local governments, administratively-attached boards, public and private interest groups, the legislature, Indian tribes, individuals, and the Governor's office in the effort to improve and stabilize the economic climate in Montana.

The Management Services Division provides internal support to all agency divisions, bureaus, and programs. Services provided by the Management Services Division include accounting, budgeting, fiscal management, contracting, purchasing, information technology, human resources, payroll, benefits, and training.

The Director's Office and the Management Services Division are funded through an internal service fund; accounting entity 06542.

The Director's Office/Management Services Division responsibilities are mandated primarily in Title 2, Chapter 15 and Title 90, Chapter 1, MCA.

Customers are all divisions, bureaus, programs, and employees of the Department of Commerce. Use of these services is mandated by agency policies and procedures; there are no alternative sources for these services; although the department may contract for legal services from time to time whenever it is most appropriate and cost effective to do so.

During the last legislative session HB 734 transferred the Developmental Disabilities Planning and Advisory Council (DDPAC) from the Department of Public Health and Human Services to the Department of Commerce; with the option of becoming a non-profit entity. In January 2004 the Department entered into a contract with the Montana Council on Disabilities (MCDD) as a nonprofit corporation. The MCD program is funded entirely in HB 2 with federal special revenue. SB 232 transferred the Montana Heritage Preservation and Development Commission (Heritage Commission) from the Montana Historical Society to the Department of Commerce. The Heritage Commission was added to the Department of Commerce as a separate division.

With the exception of the addition of these programs there has not been any significant program, service, or customer base change since the last session.

HB 576 Revenues, Expenses, and Fund Equity:

Revenue Description:

The Director's Office/Management Services Division; is funded by revenues from charges allocated to all divisions, bureaus, and programs supported by the divisions indirect cost plan. Indirect costs are allocated to supported programs based upon federally, and legislatively approved indirect cost rates applied to actual personal services expenditures.

The Director's Office/Management Services Division provides all of the services listed in the program description to all department divisions, bureaus, programs, and employees.

The customer base for the Director's Office/Management Services Division includes:

Board of Research & Commercialization Technology
Business Resources Division
Montana Promotion Division
Community Development Division
Montana Facility Finance Authority
Housing Division
Board of Investments
Montana Heritage Preservation and Development Commission
Montana Council on Developmental Disabilities

The revenue objective of the Director's Office/Management Services Division is to maintain the lowest possible indirect charge to supported divisions, bureaus, and programs, while maintaining a nominal working capital reserve. The department has historically used this methodology in calculating indirect rates because the federal government requires the same methodology to be used when charging indirect costs to federally funded programs.

FY 2004 base year funding, by fund type is as follows:

	FY 2004	%
General Fund	$ 124,151.08	13.018%
State Special	$ 252,284.11	26.453%
Federal Special	$ 123,830.24	12.984%
Proprietary	$ 421,171.63	44.161%
Misc. Reimbursement	$ 32,277.64	3.384%
Totals:	$ 953,714.70	100.000%

Customer expenditures are primarily recorded in SABHRS expenditure codes 62743, 62827, and 62888; while Director's Office/Management Services Division revenues are primarily recorded in the following SABHRS revenue codes:

	FY 2004	%
520702	$ 896,437.06	93.994%
520901	$ 183.74	0.019%
522017	$ 90.00	0.009%
522119	$ 4,424.59	0.464%
525045	$ 52,579.31	5.513%
Totals:	$ 953,714.70	100.000%

Expense Description:

The major cost drivers within the Director's Office/Management Services Division are personal services, operating expenses and expenditures related to the periodic replacement of the agencies computer equipment. The major cost drivers for the division can best be represented in the following table:

	FY 2004	%
FTE	16.50	
Personal Services	$ 859,583.05	80.632%
Operating Expenses	$ 206,478.60	19.368%
Totals:	$ 1,066,061.65	100.000%

Factors that contribute to uncertainty in forecasting expenses involve potential legislative actions since the cost of providing centralized support services is directly related to the number and complexity of the agencies divisions, bureaus, and programs; and the number of agency staff served. As agency services and programs increase, or decrease; management needs to remain cognizant of divisions staffing requirements and indirect cost rates and make the necessary adjustments when needed.

For the purposes of this analysis, it is assumed the agencies divisions, bureaus, programs, and staff remain constant. Non-typical and one-time-only expenses are subtracted out of the divisions future cost projections before calculating the indirect rate. The proposed indirect cost rate will fund 16.50 FTE in the 2007 biennium; the same number as the 2005 biennium.

Working Capital Discussion:

The division's indirect cost rate is calculated by dividing projected annual expenses, plus a nominal working capital reserve, by the projected actual personal services expenses of supported divisions, bureaus, and programs. Federally funded programs are allocated indirect costs via a federally approved indirect cost rate, while state funded programs are allocated indirect costs via a legislatively approved indirect cost rate.

The division's working capital objective is to recover the costs necessary to fund the division's ongoing operations. Since indirect cost collections lag by at least one month the division needs to maintain a nominal 60 day working capital reserve to meet operating costs. For example, January's indirect costs would be billed to supported divisions, bureaus, and programs in February.

Fund Equity and Reserved Fund Balance:

At the proposed rates, the Department projects a fiscal year end 2007 ending unreserved fund balance of $194,276, or approximately a 60 day working capital reserve.

Rate Explanation:

The division negotiates an annual rate with HUD. The approved rate is a fixed rate for federally funded programs. This rate is then applied against actual personal services expenditures within the department, not including the Director's Office/ Management Services Division.

The rate negotiated with HUD requires that a carry-forward amount be built into the rate. This carry-forward amount represents the amount the division under-recovered or over-recovered in a given fiscal year. This computation compares what was originally negotiated to what actually occurred. The difference is then carried forward into the following year's rate.

The divisions indirect cost rate is determined based on guidelines prescribed by the federal government. Additionally, the division complies with 17-3-111, MCA, which requires agencies to negotiate a rate that would recover indirect costs to the greatest extent possible. In order to comply with this statute, the division has requested a rate that may vary slightly from the rate actually negotiated with HUD. The rate approved by the Legislature is considered a cap; therefore, the division cannot negotiate for a rate higher than what has been approved by the Legislature. However, the rate negotiated with HUD may be slightly lower.

Significant Present Law:

The only present law adjustment is for administrative costs; such as overtime, minor computer equipment based upon 4 year replacement schedules, and rent.

New Proposals:

There are no new proposals.